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July 9, 2020

Mr. Hirobo Obeketang
General Manager
Majuro Resort, Inc.
P.O. Box 1319
Majuro, MH 96960

Dear Mr. Obeketang:

In planning and performing our audit of the financial statements of Majuro Resort, Inc. (MRI) as of and for the year ended September 30, 2019 (on which we have issued our report dated July 9, 2020), in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, we considered MRI's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MRI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MRI's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to MRI's internal control over financial reporting as of September 30, 2019 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated July 9, 2020, on our consideration of MRI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the management, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of MRI for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte & Touche LLP

SECTION I - DEFICIENCIES

We identified the following deficiencies involving internal control over financial reporting as of September 30, 2019 that we wish to bring to your attention:

1. Unreleased Checks

The September 30, 2019 bank reconciliations contained 33 checks totaling $12,164 that have been outstanding for more than 6 months (180 days), a void check amounting to $3,580 and 31 checks totaling $43,949 that were not released. Audit adjustments were proposed to address this matter. MRI does not have internal control policies and procedures over stale dated, void and unreleased checks. We recommend management establish policies and procedures over the processing, reconciliation, monitoring and disposition of unreleased checks.

2. Deposit of Daily Collections

During the year ended September 30, 2019, collections of $7,124 were not timely deposited the next day by the cashier. Instead, collections were deposited within the next 2-4 banking days. We recommend management establish internal control policies and procedures over the completeness of sales transactions and the timely deposit of collections. This matter was discussed in our previous audits for fiscal years 2015 through 2018.

3. Fixed Assets

Depreciation expense is inconsistently calculated for buildings and building improvements using the original useful life of 16.7 years without considering the frequency of repairs and the type of improvements. Furthermore, the fixed asset register was not timely updated whereby we noted an asset disposal of $17,500 and related depreciation of $4,833 that were not reflected in the register. We recommend that management calculate depreciation expense based on current estimated useful lives. Furthermore, we recommend the fixed asset register be timely updated.

4. Management Incentives

During the year ended September 30, 2019, management received incentive pay of $10,330 in December 2018 in relation to increased workload in prior months; however, no approval by the Board of Directors was available to support the payment. Furthermore, the incentive pay checks were signed by management. We recommend decisions and other matters relating to financial incentives to management, other than normal salary, be supported by resolution of the Board of Directors and be recorded in the minutes of such meetings. Furthermore, we recommend that all checks payable to management be signed by an appropriate higher level signatory as an additional control.

5. Credit Card Sales

Long outstanding receivables of $18,020 resulting from uncleared credit card sales were not timely investigated to ascertain the reason for rejection. Of this amount, $1,593 was subsequently collected. We recommend management implement internal control procedures to verify the credit card holder's identity and investigate the reasons for the rejection of credit card sales. Additionally, these receivables may had been collected and may require further investigation by management as to validity.

6. Journal Voucher Preparation

Journal vouchers did not evidence review and approval by a person other than the preparer. We recommend management establish internal control policies and procedures requiring journal vouchers be reviewed and approved before posting by an appropriate level of management. This matter was discussed in our previous audits for fiscal years 2015 through 2018.

SECTION I – DEFICIENCIES, CONTINUED

7. Hotel System (Guest Tracker) Statistic Report

The "Statistic Report" generated from Guest Tracker does not provide accurate information as the system counts the house account (e.g. employees' use of restaurant, etc.) as an occupied room. Therefore, the Front Desk Manager manually reconciles the daily "Current Occupied's Report" generated from Guest Tracker which shows all room detail information and inputs the data to a monthly "Schedule of Local Taxes". The monthly "Schedule of Local Taxes" which shows the number of daily rooms occupied, tax exempt transactions, and room taxes is forwarded to the Financial Controller once a month to calculate room occupancy % and average room rate. Although the Financial Controller has been contacting Guest Tracker service personnel, the Company is not currently able to solve the problem so that Guest Tracker can create a correct "Statistic Report". We recommend management improve the guest tracker system to provide accurate information. This matter was discussed in our previous audits for fiscal years 2011 through 2018.

8. Missing Documents

The following documents were not available during the audit process:

1. Of 22 payroll items tested, 1 was not supported by a personnel action form, timesheet, paycheck and timecard;

2. Of 7 other operating expense items tested, 2 were not supported by underlying documentation, including vendor invoices/billing statements/quotations, check copies and purchase orders;

3. Of 23 cost of sales items tested, 1 was not supported by underlying documentation, including vendor invoices/billing statements/quotations, check copies and purchase orders;

We recommend management establish internal control policies and procedures requiring the filing and safekeeping of documents supporting financial transactions.

9. General Ledger (Journal Entries)

During the year ended September 30, 2019, we noted certain journal entries that either lacked adequate descriptions as to the nature of the transactions or journal entries that displayed duplicate amounts and descriptions. We recommend management establish internal control policies and procedures requiring adequate description of the journal entries be made identifying the nature of each transaction.

10. Long Outstanding Unidentified Receivables

At September 30, 2019, the direct bill account subsidiary ledger includes various unidentified old trade receivables aggregating $49,866 that remain uncollected. No financial statement impact exists as a corresponding allowance for doubtful accounts has been established. We recommend management establish internal control policies and procedures requiring the approval and write-off of old receivables where collection is remote.

SECTION II - OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

11. Guest Tracker (Aging Report)

The guest ledger is incorrectly configured to produce reliable aging of receivables. We verified that long outstanding receivables recorded in the Guest Ledger and subsequently transferred to direct bill captured the date of the reclassification as the starting point for aging. Thus, all long outstanding receivables will be reported as current. Subsequently, the assistant accounting manager will manually modify the aging report generated from the system by tracing the original transaction date of each folio to properly reflect the age of the receivables. We recommend management implement modifications of the Guest Tracker to properly reflect receivable aging.

12. Local Noncompliance

Section 128 of RepMar's Procurement Code states that a contract may be awarded for supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction them. During the year ended September 30, 2019, MRI purchased 12 propane tank refills for $2,280 from a sole supplier. Management indicated that there was no adequate number of qualified sources for the above transaction; however, this matter was not fully documented in the procurement documents.

We recommend management require that documentation be adequate to comply with applicable procurement requirements. Specifically, documentation should indicate the history of procurement including rationale for contractor selection and documentation of sole provider.

13. Quarterly Social Security Remittances

Social Security tax returns are required to be filed and paid within 10 days after the quarter end; however, the September 30, 2019 return was filed and paid on October 26, 2019. MRI was not compliant with the requirement. We recommend management timely file and remit Social Security tax payments in accordance with established requirements.

14. Board Sitting Fees

During the year ended September 30, 2019, MRI paid sitting fees of $5,600 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus be subject to withholding taxes. No withholding taxes were withheld by MRI. We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on sitting fees paid to Board members.

SECTION III - DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

MRI's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.