

October 24, 2022

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, 2021 (on which we have issued our report dated October 24, 2022), 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 and other matters as of September 30, 2021 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated October 24, 2022, 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,



SECTION I - DEFICIENCIES

We identified the following deficiencies involving internal control over financial reporting as of September 30, 2021 that we wish to bring to your attention:

1. Bank Reconciliations

As of September 30, 2021, cash was understated by \$14,273 due primarily to unrecorded bank deposits. As this amount was not considered material to the financial statements, no audit adjustment was proposed. We recommend management establish internal control policies and procedures requiring the timely processing, reconciliation, monitoring and disposition of bank reconciling items.

2. Credit Card Sales

As of September 30, 2021, the General Bank account reconciliation included \$14,537 of deposits in transit, including \$3,584 relating primarily to 2020 and prior rejected credit card sales that are pending investigation. We recommend management establish internal control policies and procedures requiring timely investigation of rejected credit card sales. This matter was discussed in our previous audits for fiscal years 2018 through 2020.

3. Accrued Payroll Liabilities

As of September 30, 2021, accrued vacation leave for unclaimed entitlements by former Hotel employees was overstated by \$38,999. Furthermore, accrued payroll and related allotments payable were understated by \$24,583 and \$11,593, respectively. The net overstatement of \$2,823 was not considered material to the financial statements. Accordingly, no audit adjustment was proposed. We recommend management establish internal control policies and procedures requiring timely reconciliation and recordation of accrued payroll liabilities and correction of related leave records.

4. 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 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 consider Guest Tracker system improvements to provide accurate information. This matter was discussed in our previous audits for fiscal years 2011 through 2020.

5. Food and Beverage (F&B) Purchases

Of 24 F&B purchases tested, one item (check# 87685 for \$660) 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.

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:

1. 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 manually modifies 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 consider Guest Tracker modifications to properly reflect receivable aging. This matter was discussed in our previous audits for fiscal years 2011 through 2020.

2. Local Noncompliance - RMI Procurement Code

Section 128 of the RMI Procurement Code requires that a contract may be awarded for a 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 item. For the following items, supporting documentation was inadequate to evidence the procurement process, specifically the sole source purchase:

1. \$6,000 of professional fees paid per check # 1487 for utility usage consultation services.
2. \$9,600 of professional fees paid per check # 1488 for generator purchase consultation services.

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

3. Board Sitting Fees

During the year ended September 30, 2021, MRI paid sitting fees of \$8,025 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus may 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. This matter was discussed in our previous audits for fiscal years 2019 and 2020.

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.