

*Management Letter*

**Majuro Resort, Inc.**

(A Component Unit of the Republic of the Marshall Islands)

*Year ended September 30, 2022*



October 16, 2024

Management and the Board of Directors  
Majuro Resort, Inc.

In planning and performing our audit of the financial statements of Majuro Resort, Inc. (MRI) as of and for the year ended September 30, 2022, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MRI's internal control. Accordingly, we do not express an opinion on the effectiveness of the MRI's internal control.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

### Hotel System (Guest Tracker) Statistic Report

Condition: 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".

Recommendation: We recommend management consider Guest Tracker system improvements to provide accurate information.

### Guest Tracker (Aging Report)

Condition: The guest ledger is incorrectly configured to allow for the production of reliable aged receivable reports. 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 aged receivables.

Recommendation: We recommend management consider Guest Tracker modifications to properly reflect aged receivables.

### Furniture, Fixtures and Equipment

Condition: During our review of the fixed asset register, we noted that a number of furniture, fixtures, and equipment (FF&E) items that have been fully depreciated remain on the register. While these assets are no longer depreciating, they continue to be carried on the register, potentially overstating the value of active fixed assets.

Recommendation: We recommend that management undertake a thorough review of the fixed asset register to identify all fully depreciated assets, specifically those that are no longer in use or have been disposed of. Once identified, these assets should be removed from the register, and any disposals should be formally documented. Implementing a regular review process will ensure that the fixed asset register accurately reflects the hotel's current asset base and improves financial reporting accuracy.

### Accounts Payable and Other Liabilities

Condition: As of September 30, 2022, the following liability accounts were overstated by a cumulative amount of \$123,438:

- Accrued vacation leave for unclaimed entitlements by former Hotel employees was overstated by \$44,743.
- Social Security payable was overstated by \$43,753.
- Withholding tax payable was overstated by \$19,429.
- NTA payables is overstated by \$15,513.

As the amount was not considered material to the financial statements, no audit adjustments were proposed.

Recommendation: We recommend management establish internal control policies and procedures through enhancement of reconciliation processes requiring rigorous procedures to ensure all liabilities are accurately recorded and reviewed regularly.

### Credit Card Sales

Condition: As of September 30, 2022, the bank reconciliations for the BOG General Account and the BOMI Savings Account included Deposit in Transit amounts of \$31,858 and \$2,794, respectively, of which \$699 and \$396, respectively, represented rejected and uncollected credit card sales.

Recommendation: We recommend management establish internal control policies and procedures requiring follow up of rejected credit card sales.

### Unsupported Revenues

Condition: During the year ended September 30, 2022, MRI recognized unsupported revenues in the amount of \$100,256. These revenues pertained to journal entry adjustments associated with subledger and general ledger reconciliations for Accounts Receivable-Direct Bill and Accounts Receivable-Guest Ledger.

Recommendation: We recommend management establish internal control policies and procedures requiring monthly monitoring of both the guest tracker management report and the accounts receivable aging report prior to posting of revenue and receivable entries.

### Board Sitting Fees

Condition: During the year ended September 30, 2022, MRI paid sitting fees of \$5,800 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.

Recommendation: 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.

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This communication is intended solely for the information and use of management, the Board of Directors, 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. However, this report is also a matter of public record.

At this time, we would like to thank all the staff and management of MRI for their cooperation extended to us during the course of our audit. We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

*Ernst + Young LLP*