

Management Letter

Majuro Resort, Inc.

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

Year ended September 30, 2023



**Shape the future
with confidence**



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Management and the Board of Directors
Majuro Resort, Inc.

In planning and performing our audit of the financial statements of the business-type activities of Majuro Resort, Inc. (MRI) as of and for the year ended September 30, 2023, 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 MRI's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 several fully depreciated furniture, fixtures and equipment (FF&E) items remain on the register. Total accumulated depreciation is \$2.95 million as of September 30, 2023, representing 91% of the capital asset cost of \$3.25 million. Although these assets are no longer depreciating, their continued presence on the register may overstate 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.

Cash

Condition: At September 30, 2023, the bank reconciliations included: (i) a deposit in transit of \$3,391; however, \$3,177 of this amount was subsequently determined to have been stolen; and (ii) deposits in transit of \$20,624 representing credit card sales; however, \$1,410 of these amounts have not cleared the bank.

Recommendation: We recommend management ensure timely investigation and adjustment of unreconciled items, strengthen cash handling procedures, and implement enhanced oversight to prevent and detect misappropriation.

Accrued Vacation

Condition: At September 30, 2023, the accrued leave balance was overstated by \$42,369 due to the inclusion of leave entitlements for individuals who were no longer employed. As the amount was not considered material to the financial statements, no audit adjustment was proposed.

Accrued Vacation, continued

Recommendation: We recommend that management periodically reconcile the leave records to the current employee roster and ensure that accrued leave balances are adjusted promptly for terminated employees.

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