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October 14, 2013

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, 2012 (on which we have issued our report dated October 14, 2013), 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, 2012 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated October 14, 2013, 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 - OTHER DEFICIENCIES

We identified the following other deficiencies involving internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

1. Fixed asset inventory, maintenance & impairment

Observation: While management tracks the status of recorded fixed assets, such are not subjected to periodic inventories and impairment review. Furthermore, it is difficult to determine the location of fixed assets as a tag or other numbering system is not in use.

Recommendation: We recommended that fixed assets be subjected to periodic physical inventories and periodic review for impairment to facilitate physical inventories. Fixed assets should be assigned unique tag numbers.

Auditee Response: MRI's capital assets are not tagged and physical property count was not performed since the opening of the hotel. The cost and benefit to conduct property count will be properly considered. Certain capital equipment was purchased during the year to replace damaged equipment due to wear and tear. The net book values of these assets were zero at the time of replacement and we opted not to relieve the cost and accumulated depreciation in the Lapsing Schedule for future reference. But we properly considered adhering to the appropriate accounting standards. All newly acquired capital equipment is immediately put into use. Thus, the need to document the use of these assets is deemed not necessary.

2. Recording of new acquisition of fixed asset and depreciation

Observation:

a. Recording of new acquisition:

MRI purchased 40 A/C units at a total cost \$56,380 and incurred related costs of \$23,800 for other materials and labor. However, MRI recorded the fixed assets in 5 separate line items based on vendor invoices instead of aggregating the total costs.

b. Overstatement of depreciation:

Depreciation expense for room equipment (condensing unit) was overstated by \$2,506 due to a calculation error.

Recommendation:

a. We recommended that the total cost of fixed assets be aggregated and recorded in the fixed asset register.

b. We recommend that depreciation expense be accurately calculated and recorded.

2. Recording of new acquisition of fixed asset and depreciation, Continued

Auditee Response: MRI has now taken corrective measures to ensure all newly acquired fixed assets are recorded in aggregate amount and properly maintained in the fixed asset register. This will keep track of the correct value of assets and allows for computation of depreciation. On the other hand, the \$2,506 overstatement of depreciation expense for the room equipment (condensing unit) was the result of wrong calculation. This was an oversight on the part of the Accounting Department and an adjusting entry was made to correct the error.

3. Payroll Expense

Observation: During tests of payroll expenses, 9 of 38 employees tested received an average of \$5 of additional pay. It appears that withholding taxes deducted were less than the requirement, resulting in the difference. Management could not explain why this occurred. This matter was addressed in 2009 through 2011 and was repeated in 2012.

Recommendation: We recommend that management accurately calculate and pay payroll expenses.

Auditee Response: The difference between the manual and the system computation of the employee's withholding taxes has been discussed with the payroll software provider. He indicated that the difference is maybe due to the computation of withholding tax exemptions. No formal and final resolution has been proposed by the system provider as of to date. MRI management is finding way on how to resolve this recurring issue.

4. Hotel System (Guest Tracker) Statistic Report

Observation: 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 from the daily "Current Occupied's Report" generated from Guest Tracker which shows all room detail information of the day and inputs the data to a monthly "Schedule of Local Taxes", which shows the number of daily rooms occupied, tax exempt, and room tax. The monthly "Schedule of Local 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".

Recommendation: We recommend that management needs to improve the system to provide accurate information.

Auditee Response: MRI management believes that the procedure we currently utilize in generating "Statistic Report" is comprehensive, accurate and reliable, as opposed to the statistics report generated from the Guest Tracker. Nonetheless, the management will continually correspond with the system provider in order for the Guest Tracker System to produce an improved and accurate Statistic Report.

5. Hotel System back-up

Observation: Although systems back-up regularly occurs for Guest Tracker, Quick Books, and Logicare, and is stored on an external hard drive, MRI does not currently keep the back-up data outside of the hotel. There is a risk of data loss in the event of an unexpected disaster.

Recommendation: We recommend that management keep the systems back-up data outside of the hotel in case of an unexpected disaster.

Auditee Response: MRI management will consider the risk involved and the cost and benefit to keep the systems back-up data outside of the hotel premises. The recommendation will be properly addressed during management's meeting.

SECTION II - DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* 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.