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August 31, 2010

Mr. William Weza
General Manager
Majuro Resort, Inc. dba Marshall Islands Resort
P.O. Box 3279
Majuro, MH 96960

Dear Mr. Weza:

In planning and performing our audit of the financial statements of Majuro Resort, Inc. (MRI) as of and for the year ended September 30, 2009 (on which we have issued our report dated August 31, 2010), 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, 2009 that we wish to bring to your attention.

MRI's responses to the deficiencies identified in our audit are described in the accompanying Appendix I. We did not audit MRI's responses and, accordingly, we express no opinion on them.

We have also issued a separate report to the Board of Directors, also dated August 31, 2010, 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

APPENDIX I

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving MRI's internal control over financial reporting as of September 30, 2009 that we wish to bring to your attention:

1. Bank Reconciliation

   Observation: MRI did not promptly identify that collections of $5,899 are missing and were not deposited to the bank due to untimely preparation of a bank reconciliation.

   In addition, we noted that the bank reconciliation was improperly prepared as the check dated October 16, 2009 (Check #6725) was improperly included as an outstanding check as of September 30, 2009.

   Recommendation: We recommend that bank reconciliations be timely prepared. Prompt and regular performance of bank reconciliations enables the early detection of errors and irregularities. An executive should timely review the bank reconciliation to determine that it is properly prepared and that prompt action has been taken to rectify noted errors or irregularities.

   Auditee Response: Management recognizes the importance of fairly stating all cash balances and understands that the bank reconciliation helps aid in keeping the Cash account accurate and is a critical tool in the verification of these balance sheet accounts. Bank reconciliation has always been performed promptly and accurately. The delay in the preparation has brought by the change in the Front Office's Accounting Software during the year. The missing $5,899 has been later identified and immediately investigated. It was then properly recorded as collectible against the employee accountable and an allowance for doubtful accounts has also been provided.

   On the other hand, check #6725 dated October 16, 2009 amounting to $2,257 was mistakenly recorded in Accounts Payable Subsidiary Ledger on September 2009 and subsequently included as an outstanding check in the Bank Reconciliation as of September 30, 2009. This was an oversight on the part of the Accounting Department. However, no adjustment has been made to reverse the entry as the amount is considered not material. Nevertheless, management will ensure that bank reconciliation will be prepared promptly and accurately and that careful and timely review will be performed to prevent occurrence of the same.

2. Reconcile Credit Card Purchases

   Observation: MRI is making payments to the General Manager for the use of the General Manager's personal credit card to purchase items for the Hotel. We noted that the amount paid to the General Manager has no supporting computation as there was no analysis and summary prepared to identify Hotel-related purchases from credit card statements and how the payments made by the entity should be applied against those purchases. Overpayment to the General Manager is possible as the credit card was also used for the General Manager's personal purchases.

   Recommendation: An identification and summary of Hotel-related purchases from the credit card statements should be prepared monthly.

2. Reconcile Credit Card Purchases, Continued

Auditee Response: Management approved the General Manager's use of his personal credit card for company purchases from overseas. Credit card transactions for the company are reflected in the credit card reconciliation report. This report identifies and summarizes all the hotel-related purchases made out of credit card that are supported by the invoices/receipts from the vendors/suppliers. This report is updated whenever there is credit card activity. Payment for the use of credit card is done by way of reimbursement, in partial amount or in full depending on the hotel's cash situation, to the card holder and payment details are also reflected in the credit card reconciliation report.

Furthermore, the credit card is seldom use for personal purchases by the card holder and such purchases are properly identified from the credit card statements so as not to be included in the credit card reconciliation report. All credit card purchases for the hotel are duly accounted for and payments are properly recorded and applied in order to eliminate the possibility of overpayment.

3. Accrued Vacation

Observation: MRI accrues eighty hours per year of annual leave at employee historic pay rates. However, all usage of annual leave is taken at employee current rates.

Furthermore, leave forms are not consistently used and thus, actual leave taken during the year may not be completely recognized.

Recommendation: We recommend that MRI revisit employee pay rates used in the annual leave computation. We also recommend that leave forms be consistently used so that leave taken is completely accounted for.

Auditee Response: Management will consider revisiting the employees' pay rates in computing the accrual and usage of annual vacation leaves. On another note, it has been the hotel's policy that all vacation and sick leaves are accompanied by leave forms signed by the approving officers. We have communicated to the Payroll In-Charge the observation regarding the usage of leave forms. We will ensure that all leave forms are consistently used and kept on file intact and in order.

4. Food and Beverage Revenue

Observation: 21 of 41 F&B revenue transactions tested were noted to have undetermined variances between F&B reconciliation reports and Hotel posting journals. Management believes that such variances result from timing differences, i.e., other open transactions are included in the F&B reconciliation report of the next business day. The variances may also be a result of the change in the accounting software used during the year. As the employees are not yet familiar with the new software, duplicate and incorrect general ledger account revenue postings occurred. However, management believes that these were corrected in subsequent months.

Recommendation: Timely review and reconciliation of the F&B reconciliation report and the Hotel posting journal should be performed. In addition, an adequate documentation trail should be prepared to document resolution of the above mentioned timing differences.

4. Food and Beverage Revenue, Continued

   Auditee Response: The hotel has already implemented a procedure for reconciliation of the F&B Reconciliation Report and the Hotel Posting Journal as part of the Night Auditor's work. All front desk clerks have also initiated review of their shift audit as part of their daily task. The Night Auditor reviews the Hotel Posting Journal before finally closing the Hotel Audit for the day. Another level of review is performed by the Front Office's Manager and the Rooms Division Manager to ensure that their work is properly performed as expected. The Financial Controller, on the other hand, reviews the Night Auditor's Summary Report including the entries and F&B Reconciliation upon receipt of the audit pack from the Front Office on the following day. Meanwhile, with the change in the Front Office's System, a more accurate recording and posting of revenue transactions is observed which in turn helps the Night Auditor to properly prepare the daily F&B Reconciliation Report.

5. Payroll Expense

   Observation: The following were noted during tests of payroll expenses:

   a. Eight of 33 employees tested received an average $5 of additional pay per pay period. It appears that withholding taxes deducted were less than the requirement, resulting in the noted $5 average difference. Management could not explain why this occurred.

   b. Three of 33 timecards tested had no indication of supervisor approval.

   c. Three of 33 timecards tested indicated rates that differed from approved rates per underlying personnel action forms.

   Recommendation: We recommend that management ensure that employee hours are supported by approved timesheets, are accurately paid, and that hourly rates are supported by approved personnel action forms.

   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 may be due to the computation of withholding tax exemptions. However, no proposed resolution has been received yet to date.

   On the other hand, we have communicated to the Payroll In-Charge the observation regarding timecards. We will ensure that all timecards are properly approved by the appropriate level of management and that hourly rates are supported by approved Personnel Action Forms.

6. Reconciliation between Subsidiary Ledger and General Ledger

   Observation: A difference of $4,190 was noted between the AR Direct Bill subsidiary and general ledger accounts; while a difference of $9,590 was noted between the AP trade subsidiary ledger and the general ledger. The difference was discussed with the Financial Controller, who indicated that the difference may be due to timing differences. Our verification also indicated that the difference is due to posting some transactions directly to the general ledger and the subsidiary ledger was not updated.

6. Reconciliation between Subsidiary Ledger and General Ledger, Continued

Recommendation: We recommend that reconciliations between the general ledger and subsidiary ledger be performed every month-end.

Auditee Response: Based on our review of the variances, the differences between the Subsidiary Ledger and the General Ledger is due to timing differences in posting collections or payments and adjustments in the Accounts Receivable and Accounts Payable modules of the System. In addition, certain entries affecting the Accounts Receivable and the Accounts Payable modules were made through the General Ledger module.

Ideally, all entries for Accounts Receivable and Accounts Payable should be made to the appropriate modules so that the balances between the General Ledger and the Subsidiary Ledgers are in agreement. With the change in our accounting system, all invoices and payments are properly posted to the A/P module and collections are properly posted to the A/R module. Any adjustments affecting the A/R and A/P are properly done on the appropriate modules. These are now carefully observed as well as the monthly reconciliation to ensure that entries are properly posted to the appropriate modules and any adjustments are reflected in the proper period.

7. Supporting Documents for Disbursements

Observation: MRI could not provide supporting invoices for 5 of 56 disbursements tested. Also, 11 of 56 disbursements tested had no proof of evidence of receipt of the items purchased (i.e. signature and date of receipt).

Recommendation: We recommend that management ensure that payments are made only for adequately supported purchases of goods or services. We also recommend that a responsible employee sign and clearly indicate the date of the receipt of goods.

Auditee Response: Supporting documentations were all complete at the time of recording of transactions. All disbursements out of paid-outs were supported by invoices and/or receipts and attached to the paid-out slips. Non-availability of the supporting documents was the result of misplacement when the paid-out slips were pulled-out from the audit packs for purposes of review. The management has now implemented a procedure that will prevent occurrence of the same.

On the other hand, purchases made by the Food and Beverage Department are supported by the supplier's invoices. The F&B Manager, the Chef or its representatives are authorized to receive the items purchased, sign on the Invoice and indicate the date of receipt of goods on the Invoice. We have communicated with our concerned employees the observation regarding the receipt of the merchandise purchased and we will ensure that proper proof of evidence of receipt of the items is established and that all Invoices are forwarded to Accounting Department for processing.

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. Control over Journal Entries

   Observation: Journal entries and adjustments during the year ended September 30, 2009 were initiated and recorded by the same accounting personnel with the absence of independent review.

   Recommendation: We recommend that MRI adopt policies and procedures to ensure adequate segregation of duties pertaining to journal entries.

   Auditee Response: Management has hired a full time Controller and who, for financial reporting purposes, will report to the hotel's General Manager and Pacific International Inc.'s Chief Financial Officer. The procedure that has been implemented during the management of PII was that either the Pacific International, Inc.'s Chief Financial Officer or his designee will review and approve journal entries prepared by the Marshall Islands Resort Controller. PII management ceased on August 31, 2009 and accordingly, reporting has now been between the Marshall Islands Resort Controller and the General Manager who directly reports and communicates to Finance Chief Secretary of the Republic of Marshall Islands.

SECTION III – 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.