Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3973
USA
Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

September 8, 2014

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, 2013 (on which we have issued our report dated September 8, 2014), 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, 2013 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated September 8, 2014, 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

SECTION I - OTHER DEFICIENCIES

We identified the following other deficiencies involving internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention:

1. Fixed Assets

Observation: While management tracks the status of recorded fixed assets, such are not subjected to periodic inventories and impairment review. Furthermore, it is difficult ascertain 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.

2. Fixed Assets

Observation: Of thirteen fixed asset additions tested, three items (20 guest room refrigerators for $3,536; Toshiba 15.6 laptop with case for $787; and hotel door signage and various signs for $2,927) were not supported by underlying vendor invoices nor evidence of the procurement process.

Recommendation: We recommend that management require proper and complete filing of vendor invoices for capital asset additions.

3. Payroll Expense

Observation: Of twenty-seven payroll expenses tested, two items (PPE 9/15/13 for $507 and PPE 9/30/13 for $324) were not supported by underlying copies of the payroll check duplicates.

Recommendation: We recommend that management require proper and complete filing of payroll check duplicates.

4. Inventory

Observation: Of two inventory items tested, the cost for one item (Black Tiger Shrimp 31/35 for $11.24) was not supported by the underlying vendor invoice.

Recommendation: We recommend that management require proper and complete filing of vendor invoices for inventory purchases.

5. 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 improve the guest tracker system to provide accurate information.

6. 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.

7. Offsetting of Receivables and Payables

Observation: During our tests of accounts receivable, we noted one account with an amount due from a related party of $2,213 that was being offset by corresponding accounts payable of $22,390; however, no written agreement documenting this arrangement was provided.

Recommendation: We recommend that management require written agreements to support all account offset arrangements.

8. Daily Sales Log Sheets

Observation: Of thirty-seven Food and Beverage revenue items tested, we noted six instances where the separate daily summary of sales prepared on a Daily Sales Log Sheet for food revenue (ENRA) and bar sales (JAKARO) were interchanged whereby the summary of food revenue was prepared using the JAKARO Bar Daily Sales Log Sheet and the summary of bar sales was prepared using the ENRA Daily Sales Log Sheet.

Recommendation: We recommend that management require the use of correct forms to facilitate recording and organization of sales transactions. We also recommend that reviewers of the daily night audit packs be keen in checking the correct forms used by the servers/cashiers and advise concern server/cashier the next day to avoid repetition of errors/mixed up of forms.

9. Bank Reconciliation

Observation: At September 30, 2013, the bank reconciliation for the General bank account included a reconciling item dated July 25, 2013 for $2,036 representing a deposit in transit that remained uncleared as at May 30, 2014.

Recommendation: We recommend that management monitor and require the timely clearing of long outstanding bank reconciling items.

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.