



July 25, 2001

CONFIDENTIAL

Mr. William H. Weza
General Manager
Majuro Resort, Inc.

Dear Mr. Weza:

In planning and performing our audit of the financial statements of Majuro Resort, Inc. (MRI) for the year ended September 30, 2000, on which we have issued our report dated July 25, 2001, we developed the following recommendations concerning certain matters related to MRI's internal control and certain observations and recommendations on other accounting, administrative and operating matters. Our principal recommendations are summarized below:

(1) Revenue/Receipts

Of fifty-four daily food and beverage sales tested, the following daily restaurant sales recorded in the general ledger did not agree to the daily restaurant sales per the daily food and beverage (F&B) reconciliation:

<u>Date</u>	<u>Daily Enra Food Revenue Per F&B Reconciliation</u>	<u>Daily Enra Food Revenue per General Ledger</u>	<u>Variance</u>
04/15/00	\$ 972	\$ 962	\$ (10)
06/10/00	\$ 1,348	\$ 2,527	\$ 1,179
08/26/00	\$ 1,446	\$ 1,208	\$ (238)
09/16/00	\$ 868	\$ 897	\$ 29
09/28/00	\$ 2,010	\$ 1,923	\$ (87)

No explanation was made available concerning the variances between the daily restaurant sales recorded in the general ledger and the total restaurant sales per the respective daily F&B reconciliations. We recommend that management ensure that daily food and beverage sales reconcile to amounts recorded in the general ledger. In addition, the daily sales summary for June 6 and the daily F&B reconciliations for June 8, July 10 and September 1 were not made available. We recommend that management ensure that all daily sales summaries and F&B reconciliations are properly filed in the respective daily audit packs.

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(2) Revenue/Receipts

During our testing of internal controls of the revenue/receipts cycle, we noted no evidence of review of the daily sales summaries by management or staff independent of the revenue/receipts cycle. As independent review of daily sales summaries is an essential control activity in detecting fraud or error, we recommend that daily sales summaries be reviewed by an income auditor and/or management and that any variances be investigated and corrected.

(3) Revenue/Receipts

Of twenty-five guest folios tested, three guest folios (folio #s 42392, 45844 and 48381) were not supported by completed guest registration cards. We recommend that management ensure reservation staff adhere to established policies and procedures requiring the completion of registration cards by all guests upon check-in.

(4) Purchases/Disbursements

Of twenty-five non-payroll disbursements tested, three disbursements (check #s 6078, 7625 and 7335, totaling \$75, \$8 and \$1,059, respectively) were not supported by invoices. We recommend that management ensure that all disbursements are evidenced by supporting documentation.

(5) Payroll

Of twenty-five payroll disbursements tested, fourteen timecards indicated no evidence of supervisory review. In order to strengthen controls to ensure that hours indicated on time cards agree to hours worked, we recommend supervisory review on a weekly basis. In addition, we noted fifteen personnel files did not include authorizations to support employee allotment deductions. We recommend that management ensure that employee timecards are approved indicating authorization for hours worked. Furthermore, we recommend that management ensure that all personnel files include authorizations to support employee allotment deductions.

(6) Cash

As of September 30, 2000, the bank reconciliation for the Bank of Hawaii cash account (A/c # 1035) included a reconciling item, totaling \$6,799, for which no explanation was made available. In addition, we noted one check disbursement (check # 7933, totaling \$16,793) issued prior to September 30, 2000 and recorded in the October 2000 bank statement that was not included within the outstanding check listing. We recommend that management ensure that bank reconciliations agree to the general ledger and that all reconciling items are investigated in a timely manner. This matter was discussed in our previous letter dated November 19, 1999.

(7) Cash

During our observation of MRI's year-end cut-off procedures, we noted three checks (check #s 7989, 7990 and 7991, totaling \$86, \$90 and \$273, respectively) that were issued out of sequence for the Bank of Hawaii Operating Account (A/c # 0039-008505). We recommend that management ensure that checks are issued in sequential order.

(8) Receivables

As of September 30, 2000, the general ledger direct billings account (A/c # 1300) was not supported by an aged receivables subsidiary ledger. Based on discussions with management, this report was no longer available at the time of our audit fieldwork but is a standard part of management's monthly internal reporting package. As an accounts receivable aging schedule constitutes an important credit and collection tool, we recommend that management ensure that a hard copy is available as part of its monthly internal reporting.

(9) Receivables

As of September 30, 2000, MRI recorded receivables (A/c # 1200, totaling \$24,817) in the City Ledger general ledger account. Although this account is used to record receivables for managers' meals, infrequent customer charges and other miscellaneous charges, we noted that the year end balance consisted of certain aged receivables that should have been transferred to the direct billings receivable account. We recommend that all accounts receivable be recorded in appropriate receivable accounts and that the City Ledger general ledger account is used only for infrequent and temporary charges.

(10) Receivables

Of thirteen direct bill receivable accounts tested, one customer account (A/c # 167, totaling \$28,836) was not supported by a reconciled statement. The bank reconciliation for the general ledger cash account (A/c # 1035) included two reconciling items, totaling \$9,386, which represented deposits received on September 19 and September 27 that were not applied to this customer's account. An audit adjustment was proposed to reduce the customer's account balance to \$19,450. We recommend that all direct bill receivable accounts be supported by reconciled statements.

(11) Accrued Expenses

As of September 30, 2000, the general ledger other receivables account (A/c # 1400) recorded a credit balance of \$18,174. Based on discussions with management and review of the general ledger details, this amount included certain payables to MRI vendors. An audit adjustment was proposed to reclassify this amount as accrued expenses. In addition, no detailed subsidiary ledger was made available to support transactions recorded within this account. We recommend that management ensure that credit balances in receivable accounts are reconciled and appropriately reclassified as liabilities.

(12) Accrued Expenses

As of September 30, 2000, MRI recorded accrued expenses, totaling \$14,413, in the Accrued Expenses general ledger account (A/c # 3260), for which no supporting subsidiary ledger was made available. We recommend that management ensure that all liability accounts are supported by detailed subsidiary ledgers.

(13) Compensated Absences

As of September 30, 2000, MRI recorded accrued annual leave, totaling \$27,294, including five employees with leave hours exceeding 208 hours. Currently, MRI does not have a policy of mandatory vacations for its employees. We recommend that MRI establish a mandatory vacation policy.

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(14) Related Parties

The financial statements disclose that MRI has transactions with affiliates in the ordinary course of business. The current accounting system can not easily quantify the dollar amount of transactions with related parties. We recommend that a system be developed to quantify related party transactions to facilitate inclusion in the notes to financial statements.

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We have communicated certain matters noted during our audit of the financial statements of MRI for the year ended September 30, 2000, which we considered to be reportable conditions, in our report to the Board of Directors dated July 25, 2001.

This report is intended solely for the information and use of management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the accounting staff and management for their assistance during the course of our audit. Should you have any questions regarding the matters discussed herein, please contact our office at your convenience.

Very truly yours,

Deloitte & Touche