

March 26, 2002

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 fifteen months ended December 31, 2001, on which we have issued our report dated March 26, 2002, 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 twenty-five Food and Beverage (F&B) department audit reconciliation worksheets tested, the worksheets and related till tapes for January 6, 2001 and January 10, 2001, were not made available. We recommend that management ensure that F&B sales are supported by audit reconciliation worksheets and that such are properly filed.

(2) Purchases/Disbursements

Of ten operating expenses tested, the contract for one disbursement (check # 8704 for \$950) relating to employee housing was not made available. We recommend that management ensure that all disbursements be supported by appropriate documentation.

(3) Purchases/Disbursements

All check vouchers should be issued in numeric sequence. During the fifteen months ended December 31, 2001, we noted that check vouchers pertaining to the Bank of Hawaii operating account (A/c # 0039-008505) were not issued in numeric sequence. Furthermore, we noted that check vouchers pertaining to the Bank of Marshall Islands payroll account (A/c # 9501423) were issued for non-payroll related disbursements. We recommend that management ensure that check vouchers are issued in numeric sequence. Furthermore, we recommend that management ensure that the payroll bank account is utilized for payroll related disbursements in accordance with prescribed policies and procedures.

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(4) Receivables

At December 31, 2001, MRI recorded receivables (A/c # 1300, totaling \$327,044) in the Direct Bill general ledger account. Although an aged subsidiary ledger was made available, payments received were not correctly applied against the related charges. Accordingly, the actual aging of receivable balances was not correct. As an accounts receivable aging schedule constitutes an important credit and collection tool, we recommend that management establish procedures to ensure that payments received are applied against the related charges.

(5) Receivables

At December 31, 2001, MRI recorded receivables (A/c # 1200, totaling \$24,597) 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 balance in the City Ledger consisted of certain aged receivables that should have been transferred to the direct billings receivable accounts. We recommend that all accounts receivable be recorded in appropriate receivable accounts and that the City Ledger general ledger account be used only for infrequent and temporary charges. This matter was discussed in our previous letter dated July 25, 2001.

(6) Inventory

During the December 31, 2001 inventory observation, we noted that physical inventory counts taken were not verified by personnel other than those who made the original count. To ensure adequate counting of inventory items, we recommend that management ensure that physical counts of inventory be independently verified.

(7) Fixed Assets

During our testing of fixed assets, we noted capital expenditures in the amount of \$11,362, which related to repairs and maintenance on the building, that were capitalized. Since the nature of the expenditure relates to normal wear and tear of the building, these costs should not be capitalized. As this amount was not considered material to the financial statements, no adjustment was proposed. We recommend that management ensure that expenditures relating to repairs and maintenance on the building be directly expensed.

(8) Compensated Absences

At December 31, 2001, MRI recorded accrued annual leave, totaling \$30,838, which included six employees with leave hours exceeding 200 hours each. MRI's current policy of mandatory vacations for its employees includes a maximum of 200 hours of unused vacation leave that may be accrued. In addition, the accrued hours recorded in the payroll register did not agree to the schedule of accrued leave hours. We recommend that MRI adhere to its mandatory vacation policy and ensure payroll records submitted to the bank are updated to reflect accurate vacation leave balances. This matter was discussed in our previous letter dated July 25, 2001.

(9) Hotel Management Agreement

On April 11, 2001, the Board of Directors of MRI passed a resolution to extend the Hotel Management Agreement with Outrigger Pacific, Inc. (OPI) through December 31, 2006. No formal contract extension agreement has been signed by both parties. We recommend that MRI obtain acceptance from OPI to ensure that both parties formally agree to the terms and conditions for management of the hotel.

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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,

*E. Leitch & Touche*