

**MARSHALL ISLANDS SHIPPING CORPORATION**

**(A COMPONENT UNIT OF THE REPUBLIC  
OF THE MARSHALL ISLANDS)**

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**INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL AND ON COMPLIANCE**

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**YEAR ENDED SEPTEMBER 30, 2007**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Chairman  
Board of Directors  
Marshall Islands Shipping Corporation:

We have audited the financial statements of the Marshall Islands Shipping Corporation (MISC) as of and for the year ended September 30, 2007, and have issued our report thereon dated October 5, 2009, which report was modified due to inadequacies in MISC's accounting records and internal control concerning operating revenues and expenses. Except as discussed in the preceding sentence, we conducted our audit 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered MISC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MISC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MISC'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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses (pages 3 through 12) as items 2007-1 through 2007-6 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

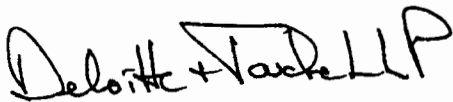
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether MISC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 2007-7 and 2007-8.

We also noted certain matters that we reported to management of MISC in a separate letter dated October 5, 2009.

MISC's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit MISC's responses and, accordingly, we express no opinion on them.

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

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, stylized font.

October 5, 2009

# MARSHALL ISLANDS SHIPPING CORPORATION

## Schedule of Findings and Responses Year Ended September 30, 2007

### Finding No. 2007-1

#### Revenues

**Criteria:** Adequate internal control policies and procedures should be established to assist in ensuring that revenues are accurately supported, identified, recorded, and collected. Furthermore, pre-numbered forms facilitate the completeness of recording revenue.

**Condition:** Pre-numbered charter request forms are not utilized. Charters are invoiced based on written information provided by management, often without sufficient detail to enable verification of the charges. Additionally, freight is invoiced based on oral declarations from customers without further verification due to lack of adequate space and equipment. Cargo is also loaded without verification against bills of ladings.

Daily collection/sales reports are not independently reviewed and verified.

MISC has not adopted a policy pertaining to the provision for doubtful accounts.

Of fourteen charter revenue items tested, the following exceptions were noted:

- Approved charter service requests were not available for eight items (sales invoice #s 85, 86, 108, 123, 136, 282, 283 and 48086).
- Sales invoices were not available for five items (#s 97A, 113, 282, 283 and 48086).

Fiscal year 2007 charter revenue amounting to \$53,000 was recorded in fiscal year 2008. An audit adjustment was proposed to record this amount in fiscal year 2007.

Reconciliations performed by management in response to audit inquiries revealed unrecorded cargo revenue of \$22,815. An audit adjustment was proposed to record this amount.

Of four passenger revenue items tested, supporting documentation provided for one item of \$2,077 (outer island collections dated November 10, 2006) was a hand-written note indicating only the amount collected and dates of collection.

Of three other revenue items tested, supporting documentation was not available for one \$5,286 item dated April 30, 2007. We recommend that management establish policies and procedures to ensure that revenue is correctly supported.

No supporting documentation or breakdown was available for recorded miscellaneous revenue (A/c #4999) of \$29,069, pertaining to sales collected by RepMar's Ministry of Finance.

**Cause:** The cause of the above condition is the lack of established policies and procedures that require that revenues be accurately supported, identified, recorded, and collected.

**Effect:** The effect of the above condition is a possible misstatement of revenues.

**Recommendation:** We recommend that management establish policies and procedures pertaining to revenues.

**MARSHALL ISLANDS SHIPPING CORPORATION**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2007

Finding No. 2007-1, Continued

Revenues, Continued

Auditee Response and Corrective Action Plan:

Who: Head Accounting Officer

What: He/She will need to make sure A/R department have all sale invoices and cash receipts provided or issued for approval before and after making payment. He/She also needs to inform customers not to make direct deposits to the company's account before seeing or reviewing the sale invoices.

When: Next Fiscal Years in 2009 and 2010.

**MARSHALL ISLANDS SHIPPING CORPORATION**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2007

Finding No. 2007-2

Payroll

Criteria: Payroll expenses should be authorized and supported by appropriate documentation.

Condition: Of thirty-seven payroll expenses tested, the following exceptions were noted:

- Approved personnel action forms for the following employees were not available:

<u>Employee #</u>	<u>PPE</u>	<u>Employee #</u>	<u>PPE</u>
004-04-1589	03/10/2007	004-21-4178	06/01/2007
004-20-8725	03/10/2007	004-20-9791	06/16/2007
004-20-8989	03/10/2007	004-20-1969	06/30/2007
004-06-2926	03/24/2007	004-04-2095	07/14/2007
004-20-2738	04/07/2007	004-20-0028	07/14/2007
004-20-5797	04/07/2007	004-04-0321	07/28/2007
004-04-7756	04/21/2007	004-08-5840	07/28/2007
004-20-3927	04/21/2007	004-21-6210	07/28/2007
004-20-7427	04/21/2007	004-06-4735	08/10/2007
004-22-3280	04/21/2007	004-09-2821	08/10/2007
004-03-4625	04/21/2007	004-20-9973	08/10/2007
004-04-7918	05/06/2007	004-05-5714	08/25/2007
004-20-0027	05/19/2007	004-21-2330	08/25/2007
004-06-6218	05/19/2007	004-20-1969	09/09/2007
004-21-9218	05/19/2007	004-20-4162	09/09/2007
004-06-0406	06/01/2007		

- Approved timesheets for the following employees were not available:

<u>Employee #</u>	<u>PPE</u>	<u>Employee #</u>	<u>PPE</u>
004-04-1589	03/10/2007	004-08-5840	07/28/2007
004-06-2926	03/24/2007	004-21-6210	07/28/2007
004-20-0028	07/14/2007	004-20-9973	08/10/2007
004-02-6117	07/28/2007	004-02-6668	09/22/2007
004-04-0321	07/28/2007		

Cause: The cause of the above condition is the lack of established policies and procedures over payroll disbursements.

Effect: The effect of the above condition is a possible misstatement of payroll or unauthorized payroll expenses.

Recommendation: We recommend that management establish policies and procedures over payroll expenses.

**MARSHALL ISLANDS SHIPPING CORPORATION**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2007

Finding No. 2007-2, Continued

Payroll, Continued

Auditee Response and Corrective Action Plan:

Who: Head Accounting Officer

What: He/She need to make sure each employee have authorized, approved, and available supporting documentation in files. He/She also need to make sure the company computer system will not give wrong payroll information for each employee.

When: Next Fiscal Years in 2009 and 2010.

**MARSHALL ISLANDS SHIPPING CORPORATION**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2007

Finding No. 2007-3

Purchases/Disbursements

Criteria: Expenses should be supported by adequate documentation.

Condition: Of forty-eight non-payroll expenses tested, the following exceptions were noted:

- The supporting documentation was not available for the following checks:

<u>Check #</u>	<u>Amount Tested</u>
1186	\$ 25,600
1253	\$ 12,090
8402	\$ 24,300
8661	\$ 3,793

- Documentation supporting the following general journal entries was not available:

<u>Transaction #</u>	<u>Date</u>	<u>Amount Tested</u>
541	10/25/2006	\$ 20,019
554	10/20/2006	\$ 7,200
557	11/17/2006	\$ 7,620
4529	05/31/2007	\$ 1,798
4537	05/31/2007	\$ 7,403
4544	05/31/2007	\$ 19,246

Additionally, documentation supporting expenses of \$30,480 paid by RepMar was not locatable.

Cause: The cause of the above condition is the lack of established policies and procedures requiring that non-payroll disbursements be supported by adequate documentation.

Effect: The effect of the above condition is the possibility of invalid expenses.

Recommendation: We recommend that management establish policies and procedures to require that expenses are supported by adequate documentation.

Auditee Response and Corrective Action Plan:

**Who:** Head Accounting Officer

**What:** He/She need to make sure the A/P department have all purchase invoices, receipts, and other supporting documents provided at all times before issuing a check to vendors. Documentation also needs to be approved and correctly input into the accounting system.

**When:** Next Fiscal Years in 2009 and 2010.



**MARSHALL ISLANDS SHIPPING CORPORATION**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2007

Finding No. 2007-4

Prepayments

Criteria: Advances to vendors should be correctly recorded.

Condition: MISC advanced \$72,000 to a vendor for equipment that was received in fiscal year 2008. The advances were recorded in the fixed asset register and were depreciated during fiscal year 2007. Audit adjustments were proposed to correct this error.

Cause: The cause of the above condition is the lack of established policies and procedures over advances to vendors.

Effect: The effect of the above condition is a misstatement of fixed assets.

Recommendation: We recommend that management establish policies and procedures pertaining to prepayments.

Auditee Response and Corrective Action Plan:

Who: Management

What: He/She need to establish policies and procedures pertaining to prepayments. Advances to vendors for equipment should be correctly recorded, approved, and available in files at the same date that will/was receive/received.

When: Next Fiscal Years in 2009 and 2010.

# MARSHALL ISLANDS SHIPPING CORPORATION

## Schedule of Findings and Responses, Continued Year Ended September 30, 2007

### Finding No. 2007-5

#### Fixed Assets

Criteria: Adequate internal control policies and procedures should be established to require that the subsidiary fixed asset register includes appropriate detail, a physical inventory of fixed assets is taken and the results reconciled with the fixed asset register, and fixed assets are adequately safeguarded. Furthermore, policies over actual estimated useful lives and a capitalization threshold should be adopted.

Condition: MISC has not established policies and procedures pertaining to fixed assets, specifically asset lives and capitalization thresholds. Furthermore, fixed assets are not tagged and additions and depreciation expense are recorded directly to net assets. Audit adjustments were proposed to record depreciation expense and to correct the net assets balances.

Cause: The cause of the above condition is the lack of established policies and procedures pertaining to fixed assets.

Effect: The effect of the above condition is a possible misstatement of fixed assets.

Recommendation: We recommend that management establish policies and procedures pertaining to fixed assets.

Auditee Response and Corrective Action Plan: We agree.

**Who:** Head Accounting Officer

**What:** He/She need to establish new policies and procedures pertaining to the fixed assets register. And also have the fixed assets tagged and correctly recorded into the system. The assets cost, freight and tax should be included and recorded together when imputing the cost of assets into the system.

**When:** Next Fiscal Years in 2009 and 2010.

# MARSHALL ISLANDS SHIPPING CORPORATION

## Schedule of Findings and Responses, Continued Year Ended September 30, 2007

### Finding No. 2007-6

#### External Financial Reporting

Criteria: Adequate accounting controls necessitate segregation of duties. Journal entries and adjustments should accordingly be approved and be recorded by separate individuals.

Condition: Journal entries and adjustments during the year ended September 30, 2007 were initiated and posted by MISC's consultant with an absence of independent review. Additionally, general journal vouchers and attendant supporting documentation were not prepared to support recorded journal entries.

Cause: The cause of the above condition is the lack of established policies and procedures that promote segregation of duties and the retention of documents supporting journal entries.

Effect: The effect of the above condition is a possible misstatement of the financial statements.

Recommendation: We recommend that management establish policies and procedures pertaining to journal entries.

Auditee Response and Corrective Action Plan: We agree.

Who: Head Accounting Officer

What: He/She need to make sure management established policies and procedures that segregate duties and the retention of documents supporting journal entries. Furthermore, all documentation pertaining to journal entries needs to be approved and signed by management.

When: Next Fiscal Years in 2009 and 2010.

## MARSHALL ISLANDS SHIPPING CORPORATION

### Schedule of Findings and Responses, Continued Year Ended September 30, 2007

#### Finding No. 2007-7

##### Local Noncompliance

Criteria: Public Law 2005-41 established the Marshall Islands Shipping Corporation (MISC) and authorized all movable and immovable property of the shipping services under the Ministry of Transportation and Communication of the Republic to vest absolutely in MISC. Further, all assets and liabilities; rights, duties and obligations; and all contracts and agreements of the Republic relating to shipping services, subsisting on the date of MISC's establishment, shall stand transferred and vest in MISC.

Condition: No documentation was provided to indicate that all assets and liabilities; rights, duties and obligations; and all contracts and agreements of the Republic relating to shipping services, subsisting on the date of MISC's establishment, have been transferred to MISC. Specifically, four vessels (Aemman, Jelet Ae, Langdrik, and Ribuuk Ae) operated by MISC and vehicles acquired by the Ministry of Transportation and Communications are not recorded by MISC.

Cause: The cause of the above condition is the lack of official documentation transferring all assets and liabilities; rights, duties and obligations; and all contracts and agreements of the Republic relating to shipping services, subsisting on the date of MISC's establishment.

Effect: The effect of the above condition is noncompliance with requirements of Public Law 2005-41.

Recommendation: We recommend that management comply with the requirements of Public Law 2005-41.

Auditee Response and Corrective Action Plan: We agree.

**Who:** Management

**What:** He/She need to get all documentation of all assets and liabilities; rights, duties and obligations; and all contracts and agreements of the Republic relating to shipping services from the Ministry of Transportation and Communication, which are now operated by MISC. Management needs to have all requirements of Public Law 2005-41 documenting the four vessels (Aemman, Jeljelat Ae, Landrik, and Ribuuk Ae), vehicles and any other files transferred from the Ministry of Transportation and Communication for MISC records.

**When:** Next Fiscal Years in 2009 and 2010.

**MARSHALL ISLANDS SHIPPING CORPORATION**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2007

Finding No. 2007-8

Local Noncompliance

Criteria: RepMar's Procurement Code states the following:

- (a) Section 124 – unless otherwise authorized by law, all Government contracts shall be awarded by competitive sealed bidding.
- (b) Section 127 – procurement of goods and services not exceeding \$25,000 may be made in accordance with small purchase procedures. Small purchase procedures are those relatively simple and informal methods for securing services, supplies, or other property that do not cost more than \$25,000. If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
- (c) Section 128 – a contract may be awarded for a supply, service, or construction item without competition when it is determined in writing that there is only one source for the required supply, service, or construction item.

Condition: Documentation indicating the history of procurements is not maintained on file.

Cause: The cause of the above condition is the lack of established policies and procedures to conform to the criteria.

Effect: The effect of the above condition is noncompliance with the RepMar Procurement Code.

Recommendation: We recommend that management establish policies and procedures to conform to the criteria.

Auditee Response and Corrective Action Plan: We agree.

**Who:** Management

**What:** He/She needs to establish policies and procedures to ensure compliance with RepMar's Procurement Code.

**When:** Next Fiscal Years in 2009 and 2010.

**MARSHALL ISLANDS SHIPPING CORPORATION**

Unresolved Prior Year Findings  
Year Ended September 30, 2007

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section (pages 3 to 12) of this report.