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October 5, 2009

Board of Directors  
Marshall Islands Shipping Corporation

Dear Members of the Board of Directors:

In planning and performing our audit of the financial statements of the Marshall Islands Shipping Corporation (MISC), as of and for the year ended September 30, 2007 (on which we have issued our report dated October 5, 2009), 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 MISC'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 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 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 MISC's internal control over financial reporting and other matters as of September 30, 2007 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors and management, also dated October 5, 2009, on our consideration of MISC'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.

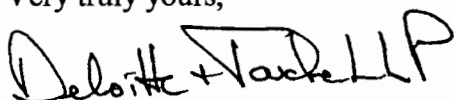
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Board of Directors, 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 MISC for their cooperation and assistance during the course of this engagement.

Very truly yours,



**SECTION I – CONTROL DEFICIENCIES**

We identified, and have included below, control deficiencies involving MISC's internal control over financial reporting as of September 30, 2007 that we wish to bring to your attention:

(1) Cash

The September 30, 2007 bank reconciliation included an unreconciled variance of \$131. Further, monthly bank reconciliations are not independently reviewed and approved. We recommend that management establish policies and procedures requiring that bank accounts are promptly reconciled and are independently reviewed and approved.

(2) Compensated Absences

As of September 30, 2007, all employees had 208 accrued annual leave hours, which is the carryover maximum, despite use of annual leave during the year. An audit adjustment was proposed to correct the \$40,466 overstatement of accrued annual leave. We recommend that management ensure that annual leave is correctly accrued.

Additionally, approved personnel action forms (PAF) for four employees were not available (004-04-7756, 004-06-0406, 004-20-0257 and 004-20-5797). We recommend that approved PAFs are maintained on file.

(3) Payroll

The same individual performs all payroll functions, including maintenance of payroll master files. We recommend that management establish policies and procedures segregating payroll function duties.

(4) Vendor Invoice

The supporting vendor invoice for one subsequent disbursement (check # 9808) was not available. We recommend that management establish policies and procedures requiring that all disbursements are supported by adequate documentation.

(5) Customer Refund

A customer was refunded in error (check #9693) in the amount of \$15,812. We brought this matter to management's attention and collection from the customer was pursued and was received in full. We recommend that management review refunds for validity, support and authorization.

(6) Backup Files

MISC performs back-ups of its QuickBooks accounting system; however, the back-ups are not stored offsite. We recommend that management implement policies and procedures pertaining to the security of accounting system data, including offsite backup storage.

**SECTION II – OTHER MATTERS**

We noted no matters related to operations and best practices involving internal control over financial reporting that we wish to bring to your attention.

**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**

MISC'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.

**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.