

MARSHALL ISLANDS SHIPPING CORPORATION

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

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

YEAR ENDED SEPTEMBER 30, 2008

**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, 2008, and have issued our report thereon dated October 5, 2009. 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 9) as items 2008-1 through 2008-5 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.

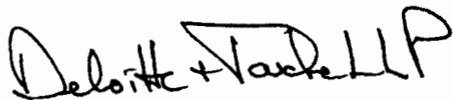
Compliance and Other Matters

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 2008-6 and 2008-7.

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, 2008

Finding No. 2008-1

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 lading.

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

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

Of twenty-five charter revenue items tested, the following exceptions were noted:

- Cash receipts were not issued for payments on sales invoice #s 219 and 221.
- Sales invoices were not issued for the following charters of the MV Jeljelat Ae:

<u>Date</u>	<u>Amount</u>
11/12/2007	\$ 20,000
01/11/2008	\$ 7,500
03/18/2008	\$ 20,000

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.

Prior Year Status: Lack of established policies and procedures pertaining to revenues was reported as a finding in the audit of MISC for fiscal year 2007.

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, 2008

Finding No. 2008-2

Payroll

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

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

- Approved personnel action form for employee #004-08-5840 for PPE 04/05/2008 was not available.
- The hourly rate paid of \$4.84 varied from the approved rate of \$4.67 for employee #004-03-4625 for PPE 04/19/2008.
- An approved timesheet for one employee (employee # 004-08-8284) for pay period ended 4/22/2008 was not available.
- The check date predated the pay period ended date for the following:

<u>Check #</u>	<u>Check Date</u>	<u>PPE</u>
10695	02/15/2008	02/23/2008
10742	02/15/2008	02/23/2008
10817	02/28/2008	03/08/2008
10865	02/28/2008	03/08/2008
10971	03/14/2008	03/22/2008
11036	03/14/2008	03/22/2008
11109	03/28/2008	04/22/2008

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.

Prior Year Status: Lack of established policies and procedures pertaining to payroll disbursements was reported as a finding in the audit of MISC for fiscal year 2007.

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, 2008

Finding No. 2008-3

Purchases/Disbursements

Criteria: Expenses should be supported by adequate documentation.

Condition: Of sixty-three non-payroll expenses tested, the following exceptions were noted:

- Documentation such as invoices, etc. was not available for check #11052.
- The invoice number indicated in the QuickBooks accounting system was incorrect for the following checks:

<u>Check #</u>	<u>Check #</u>
10428	12265
10782	12381
11280	12510
11425	12533
11793	

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.

Prior Year Status: Lack of established policies and procedures pertaining to non-payroll disbursements was reported as a finding in the audit of MISC for fiscal year 2007.

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, 2008

Finding No. 2008-4

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 assets register, and fixed assets are adequately safeguarded. Furthermore, policies over actual estimated useful life 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.

We also noted two line items under Other Equipment and one line item under Motor Vehicle in the subsidiary ledger that pertain to one flatbed truck. The three items had different descriptions and acquisition dates and pertained to the asset cost, freight and tax.

Four Cummins engines are listed in the subsidiary ledger as one line item without sufficient detail indicating quantity.

Costs capitalized for a forklift did not include related freight and tax.

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.

Prior Year Status: Lack of established policies and procedures pertaining to fixed assets was reported as a finding in the audit of MISC for fiscal year 2007.

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, 2008

Finding No. 2008-5

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, 2008 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.

Prior Year Status: Lack of established policies and procedures pertaining to journal entries was reported as a finding in the audit of MISC for fiscal year 2007.

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, 2008

Finding No. 2008-6

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 previously with 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.

Prior Year Status: Noncompliance with Public Law 2005-41 was reported as a finding in the audit of MISC for fiscal year 2007.

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, 2008

Finding No. 2008-7

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 procurement 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.

Prior Year Status: Noncompliance with RepMar's Procurement Code was reported as a finding in the audit of MISC for fiscal year 2007.

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, 2008

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section (pages 3 through 9) of this report.