

**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, 2009**

**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, 2009, and have issued our report thereon dated January 24, 2011, which report was qualified due to the inadequacy of accounting records. 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 10) as items 2009-1 through 2009-6 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.

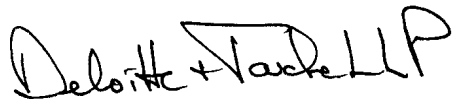
#### Compliance and Other Matters

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 2009-7 and 2009-8.

We also noted certain matters that we reported to management of MISC in a separate letter dated January 24, 2011.

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 + Tuckers LLP". The signature is written in a cursive, stylized font.

January 24, 2011

# MARSHALL ISLANDS SHIPPING CORPORATION

## Schedule of Findings and Responses Year Ended September 30, 2009

### Finding No. 2009-1

#### 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.

Sales invoices, payment receipts, and validated deposit receipts for various other revenue test selections were not provided during the audit. In addition, collection amounts did not match report amounts, and set sales price were not provided to support inventory sales.

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 and results in an opinion qualification.

Recommendation: We recommend that management establish policies and procedures pertaining to revenues. Furthermore, we recommend that MISC ensure all supporting documentation (e.g. invoices, receipts, set sales price, etc.) is arranged and is kept in file for future reference. We further recommend that MISC ensure collections be accurately recorded.

Prior Year Status: Lack of established policies and procedures pertaining to revenues was reported as a finding in the audits of MISC for fiscal years 2007 and 2008.

#### 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.

When: Next Fiscal Year in 2010.

**MARSHALL ISLANDS SHIPPING CORPORATION**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2009

Finding No. 2009-2

Purchases/Disbursements

Criteria: Expenses should be supported by adequate documentation.

Condition:

- 1) Documentation such as invoices, travel authorizations, etc. were not available to support the following expenses:

<u>Check#</u>	<u>Amount</u>	<u>Check#</u>	<u>Amount</u>	<u>Check#</u>	<u>Amount</u>
13334	\$13,000	15021	\$3,709	15592	\$15,084
13057	\$ 419	16096	\$9,734	13585	\$ 675
13320	\$ 7,270	14215	\$7,128	15148	\$ 1,800

- 2) A purchase order (PO) was not prepared for the following expenses:

<u>Check#</u>	<u>Amount</u>	<u>Check#</u>	<u>Amount</u>	<u>Check#</u>	<u>Amount</u>
13338	\$13,600	13978	\$2,772	13971	\$ 116
13465	\$43,725	14064	\$ 112	12909	\$ 1,435
13962	\$30,260	14599	\$ 6	13450	\$ 1,832
14726	\$ 1,244	15008	\$ 31	13976	\$ 3,182
14230	\$13,380	15252	\$ 24	15136	\$ 47
15732	\$ 3,980	15445	\$1,970	15590	\$ 192
13053	\$ 120	15864	\$3,800	13033	\$ 600

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 unauthorized and invalid expenses and results in an audit qualification.

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 audits of MISC for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

Who: Head Accounting Officer

What: He/She need to make sure that 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 Year in 2010.

# MARSHALL ISLANDS SHIPPING CORPORATION

## Schedule of Findings and Responses, Continued Year Ended September 30, 2009

### Finding No. 2009-3

#### Inventory

Criteria: Inventory should be monitored and reconciled.

Condition: The preliminary trial balance provided for audit included inventory of \$220,762 for which a final valuation report (inventory assets schedule) was not available. Upon the application of additional audit procedures, the final inventory was \$8,972. Accordingly, an audit adjustment was proposed to reduce inventory to the correct amount with a corresponding adjustment to cost of goods sold. However, no underlying documentation supporting the reduction in inventory balances as cost of goods sold was made available.

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

Effects: The effect of the above condition is a possible misstatement of inventory balances and invalid expenses and results in opinion qualification.

Recommendation: We recommend that management establish policies and procedures pertaining to reconciliation of inventory assets.

#### Auditee Response and Corrective Action Plan:

Who: Management

What: He/She need to establish new policies and procedures pertaining to inventory assets.

When: Next Fiscal Year in 2010.

# MARSHALL ISLANDS SHIPPING CORPORATION

## Schedule of Findings and Responses, Continued Year Ended September 30, 2009

### Finding No. 2009-4

#### 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 asset register and fixed assets are adequately safeguarded. Furthermore, policies over actual estimated useful lives and capitalization thresholds 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 asset balances. Audit adjustments were proposed to record depreciation expense and to correct net assets.

We also noted two line items with the same description, but different acquisition dates, under Motor Vehicles in the subsidiary register that pertain to one vehicle.

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

Effects: 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 the audits of MISC for fiscal years 2007 and 2008.

#### Auditee Response and Corrective Action Plan:

Who: Head Accounting Officer

What: He/She need to establish new policies and procedures pertaining to the fixed assets register. And also have all 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 Year in 2010

**MARSHALL ISLANDS SHIPPING CORPORATION**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2009

Finding No. 2009-5

Copra Purchases Payable

Criteria: Copra payable should be supported by a reconciled subsidiary ledger.

Condition: At September 30, 2009, MISC recorded copra purchases payable of \$200,637 which was not supported by a reconciled subsidiary ledger. Further, it is our understanding that copra purchases from growers are made based on check payments that are initially made out to a MISC employee who cashes the check and then distributes the cash to the growers.

Cause: The cause of the above condition is the lack of established policies and procedures pertaining to copra purchases payable, specifically monitoring and reconciliation of the liability account.

Effects: The effect of the above condition is possible misstatement of copra purchases payable and results in an audit qualification.

Recommendation: We recommend that management establish policies and procedures requiring retention of a copra purchases payable subsidiary ledger that is periodically monitored and reconciled.

Auditee Response and Corrective Action Plan:

Who: Head Accounting Officer/Management

What: He/She need to make sure all Copra Purchase are records, reconciled, completed and approved. Also Management needs to establish policies and procedures pertaining to copra purchase.

When: Next Fiscal Year in 2010.



**MARSHALL ISLANDS SHIPPING CORPORATION**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2009

Finding No. 2009-6

External Financial Reporting

Criteria: General journal entries should be supported by independently reviewed and approved journal vouchers with adequate supporting documentation.

Condition: General journal entries are not supported by independently reviewed and approved journal vouchers with adequate documentation.

Cause: The cause of the above condition is the lack of established policies and procedures pertaining to general journal vouchers.

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

Recommendation: We recommend that management establish policies and procedures requiring journal vouchers to be independently reviewed and approved and to be supported with adequate documentation.

Prior Year Status: Lack of established policies and procedures pertaining to journal entries was reported as a finding in the audits of MISC for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

Who: Management/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 Year in 2010

# MARSHALL ISLANDS SHIPPING CORPORATION

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2009

## Finding No. 2009-7

### 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 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 audits of MISC for fiscal years 2007 and 2008.

### Auditee Response and Corrective Action Plan:

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 (T & C), 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), vehiles and other files transferred from the Ministry of T&C for MISC records.

When: Next Fiscal Year in 2010

**MARSHALL ISLANDS SHIPPING CORPORATION**

Schedule of Findings and Responses, Continued  
Year Ended September 30, 2009

Finding No. 2009-8

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 promulgated by RepMar's Policy Office. 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. RepMar's Ministry of Finance has previously declared that 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: MISC does not have a formal procurement policy requiring documentation indicating the history of procurement to be maintained on file.

Cause: The cause of the above condition is the lack of established policies and procedures requiring documentation of procurement procedures to ensure compliance with RepMar's Procurement Code.

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

Recommendation: We recommend that management establish policies and procedures to ensure compliance with RepMar's Procurement Code.

Prior Year Status: Noncompliance with RepMar's Procurement Code was reported as a finding in the audits of MISC for fiscal years 2007 and 2008.

Auditee Response and Corrective Action Plan:

Who: Management

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

When: Next Fiscal Year in 2010

**MARSHALL ISLANDS SHIPPING CORPORATION**

Unresolved Prior Year Findings  
Year Ended September 30, 2009

The status of unresolved prior year findings is disclosed within the schedule of Findings and Responses sections (pages 3 through 10) of this report.