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January 24, 2011

Mr. Wally Milne
General Manager
Marshall Islands Shipping Corporation

Dear Mr. Milne:

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, 2009 (on which we have issued our report dated January 24, 2011, and which report was qualified because of the inadequacy in accounting records.), 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, 2009 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated January 24, 2011, 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,

Deloitte + Touche LLP

APPENDIX I

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving MISC's internal control over financial reporting as of September 30, 2009 that we wish to bring to your attention:

1) Cash

   At September 30, 2009, the checking account reflected a reconciling item of $1,668 dated January 31, 2007. We also noted undeposited collections of $9,762 that were not timely deposited. Furthermore, 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. This matter was discussed in our previous letter for the audit of fiscal year 2008.

   We also noted the existence of credit balances in cash revolving accounts at September 30, 2009. Such balances were incorrectly recorded. We recommend that management ensure correct recording of cash and/or other accounts.

2) Employee Advances

   At September 30, 2009, MISC recorded employee advances of $3,167 (a/c#1250). We were informed by management in the prior year that advances are required to be repaid in full over three or four payrolls and the maximum advance allowed at one time is $600; however, until now, there is no written policy governing such advances. We recommend that management establish policies governing employee advances.

3) Inventory

   We noted that the inventory assets are not physically counted in a timely manner. Hence, we were not provided with inventory schedules. We recommend that management establish policies and procedures to facilitate better inventory controls.

4) Accounts Payable

   The accounts payable subsidiary ledger is not periodically reconciled with vendor statements and/or invoices. Statements of account indicated variances of $7,285 for which no reconciliation was provided by management. In addition, we noted unaccrued expenses at September 30, 2009 of $30,626. We recommend that management ensure that the accounts payable subsidiary ledger is periodically reconciled and ensure that all accrued expenses are accurately recorded.

5) 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. This matter was discussed in our previous letter for the audit of fiscal year 2008.

   In addition, payroll expense was debited for over deductions of employee advances. We recommend that MISC ensure correct recording of transactions.

   Moreover, actual timesheets hours don't always match hours paid (as noted on the check stubs). We recommend that management ensure that total hours per check stubs agree with approved timesheets before approving checks.

5) Payroll, Continued

   Furthermore, the pay clock system, which generates payroll reports, has not been updated. We recommend that management ensure that the pay clock system is updated as necessary.

6) Non-Payroll Expense

   Purchase order forms were not signed by the General Manager. Additionally, various expenses were incorrectly classified. We recommend that purchase orders be authorized and expenses be correctly classified.

SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

1) Backup files

   MISC is to perform system back-ups of the accounting system and back-ups are to be kept offsite; however, the required backups are not regularly performed. We recommend that management enforce policies and procedures pertaining to the security of the accounting system data, including regular backup.

2) Tariff Rates

   Freight rates differed from or were not included in the tariff schedule. Furthermore, various charter rates charged and discounts granted were not supported by an approved tariff schedule. We recommend that management ensure that rates for all items and services are as set forth in the tariff. This matter was discussed in our previous letter for the audit of fiscal year 2008.

3) General Ledger

   The Accountant is the only authorized person to post transactions to the general ledger. However, the Accounting Clerk also posts transactions without the review of the Accountant. This matter should be classified and all transactions should be subject to review prior to being posted.

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.

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.