

July 27, 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, 2010 (on which we have issued our report dated July 27, 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, 2010 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated July 27, 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.

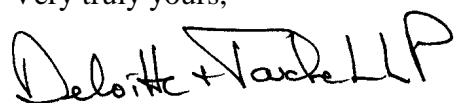
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with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



## SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving MISC's internal control over financial reporting as of September 30, 2010 that we wish to bring to your attention:

### 1) Bank Reconciliation

The September 30, 2010 bank reconciliation included reconciling items of \$101 for deposit in transit, dated 2007, and \$1,099 for outstanding checks greater than six months old. We recommend that all reconciling items be investigated and resolved in a timely manner.

### 2) Employee Advances

At September 30, 2010, advances to employees total \$23,908. There are no written policies and procedures governing advances to employees. We recommend that MISC establish policies and procedures over employee advances.

### 3) Accounts Payable and Accrued Expenses

MISC does not reconcile accounts payable balances against vendor statements. We recommend that significant accounts payable subsidiary ledger balances be periodically reconciled with vendor statements for validity and completeness. Furthermore, we recommend that MISC determine that accrued liabilities actually recorded represent valid payables. We noted accrued liabilities, totaling \$23,344, that were also recorded as accounts payable. Accordingly, an audit adjustment was proposed to reduce accrued liabilities by this amount.

### 4) Tariff Rates

Various charter rates charged and discounts granted were not supported by an approved tariff schedule. We recommend that management require all charter rates be established by tariff.

### 5) Payroll

We noted variances in actual hours worked and paid compared to timesheets. We recommend that management require that hours paid agree to hours worked as indicated on approved timesheets.

## 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) Withholding Taxes

At September 30, 2010, MISC was liable to RepMar for income taxes withheld from employee wages in the amount of \$55,399, which represented income taxes withheld for the months of April 2010 through September 2010. The enabling RMI Income Tax legislation requires employers to file and remit payment for income taxes on a monthly basis. We recommend that MISC comply with RMI Income Tax legislation and remit withholding taxes in accordance with the law.

**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.