

August 19, 2016

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, 2015 (on which we have issued our report dated August 19, 2016), 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, 2015 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated August 19, 2016, 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.

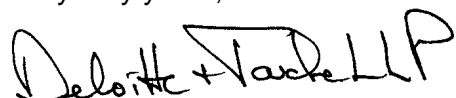
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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, 2015 that we wish to bring to your attention:

1. Bank Reconciliation

The September 30, 2015 bank reconciliation included reconciling items of \$142 for a deposit in transit greater than one year old and \$1,955 for outstanding checks greater than seven months old. We recommend that dated items be properly investigated and resolved. This matter was discussed in our previous letters to management for the audits of fiscal years 2007 through 2014.

2. Account Reconciliation

We noted that accounts payable balance per the general ledger (GL) did not reconcile with the subsidiary ledger (SL) resulting in an unreconciled variance of \$1,813. We recommend that management establish policies and procedures over timely reconciliation of account balances to minimize opportunity for unreconciled differences.

3. Passenger Revenue

Of 4 passenger revenue items tested, we noted that incorrect tariff rates were charged for 3 items. We recommend that management strengthen internal controls and procedures related to customer billings.

4. Travel Advances and Expenses

We noted instances of travel advance and expenses without proper documentation of travel authorization and liquidation. Per Company policy, employees are required to submit a travel expense report within two weeks after travel. We recommend management implement appropriate action encouraging documentation of travel authorizations and liquidation of travel advances.

5. Payroll

A personnel action form or other documentation was not prepared to document the salary of the General Manager. We recommend that this agreement be formalized. This matter was discussed in our previous letters to management for the audits of fiscal years 2011 through 2014.

6. Fixed Assets

MISC has not established policies and procedures over fixed assets, specifically asset useful lives. We recommend that MISC adopt policies and procedures pertaining to fixed assets.

7. Employee Advances

Advances are required to be repaid in full over three or four payrolls and the maximum advance allowed at one time is \$600; however, this amount was decreased to \$250 effective July 2011 but may be increased by the General Manager. There is no written policy governing such advances and this situation has not changed since prior years. At September 30, 2015, cash advances to employees total \$42,922. This matter was discussed in our previous letters to management for the audits of fiscal years 2008 through 2014.

SECTION I – CONTROL DEFICIENCIES, CONTINUED

8. Withholding of MISSA contributions

Amount recorded as contributions payable to MISSA exceeds amount confirmed by \$25,890. The variance appears to be the result of the Quickbooks system incorrectly recording liability and incorrectly withholding amounts from employees' salaries. We recommend management implement appropriate action regarding reconciliation and investigation of the amounts withheld and recorded as liability.

SECTION II – 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.