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April 29, 2019

Mr. Danny Wase
General Manager
Marshall Islands Shipping Corporation

Dear Mr. Wase:

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, 2018 (on which we have issued our report dated April 29, 2019), 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, 2018 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated April 29, 2019, 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

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving MISC's internal control over financial reporting as of September 30, 2018 that we wish to bring to your attention:

1. Fixed Assets

   The following observations concerning capital assets were noted:

   1.1 One asset was not tagged.

   1.2 One malfunctioning asset was not retired/derecognized.

   1.3 MISC has not established policies and procedures governing determination of estimating capital assets useful lives.

   1.4 Recovery of assets with an aggregate net book value of $19,875 as of September 30, 2018 has not occurred.

   We recommend management establish internal control policies and procedures governing capital assets.

2. Cash Management

   2.1 Delay in the Deposit of Collections

   We noted various checks not deposited in the bank on the same day or 1 business day after collection. The delay was represented to be due to: (1) employees being busy/few staff working and, as a result, no one made the deposit; and (2) payor requesting delay in deposit while waiting for sufficient funds or while billing was under negotiation. We recommend management implement cash management procedures to minimize the risk of mishandling and theft of cash. Furthermore, management may consider revisiting its manpower requirements.

   2.2. Unreleased Checks

   The September 30, 2018 bank reconciliation for BOG account no. ******065 contains 5 checks totaling $35,259 that were not released to payees as of September 30, 2018. MISC does not have a policy to separately record unreleased checks. An audit adjustment was proposed to reclassify these checks as accounts payable. We recommend management consider establishing a policy over the processing, reconciliation, monitoring and disposition of these checks.

   2.3. Void Check

   We noted one $600 check (no. 44115) that was physically voided but not tagged as void in the system. We recommend management consider establishing a policy over the processing, reconciliation, monitoring and disposition of checks.

3. Travel Advances

   We noted an unrecorded $1,300 travel advance as of September 30, 2018.

   We recommend management consider revisiting MISC's current policy governing travel advance liquidation.

SECTION I – CONTROL DEFICIENCIES, CONTINUED

4. <u>Netting of Revenues and Expenses</u>

   Management sells fuel to affiliates for emergency cases and records the transaction as a deduction from fuel expense. As a result, revenues and expenses were each understated by $69,248. An audit adjustment was proposed to recognized fuel sales revenues and related fuel expense.

   We recommend management record revenues and expenses at the gross amount.

SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations, compliance with law and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

1. <u>Voyage Analysis</u>

   Cargo manifests provided by management do not appear to be supported by an analysis/reconciliation to support the recorded amount of cargo revenue.

   We recommend that a revenue analysis be performed per voyage to verify the reasonableness of recorded revenues against voyage data provided bv the booking staff.

SECTION III – DEFINITIONS

The definition of a deficiency 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.