

October 27, 2021

Mr. Danny Wase
General Manager
Marshall Islands Shipping Corporation

Dear Mr. Wase:

In planning and performing our audit of the financial statements of Marshall Islands Shipping Corporation (MISC) as of and for the year ended September 30, 2020 (on which we have issued our report dated October 27, 2021), 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, 2020 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated October 27, 2021, 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.

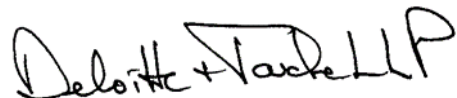
A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with 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, 2020 that we wish to bring to your attention:

1. Withholding Tax Reconciliation

At September 30, 2020, MISC recorded a \$9,047 debit balance for withholding taxes payable. During the year ended September 30, 2020, MISC withheld and paid income taxes of \$123,932 whereas taxes withheld per QuickBooks amounted to \$110,445, a variance of \$13,487. An audit adjustment was proposed to correct the debit balance; however, the adjusted withholding taxes payable of \$4,440 was not reconciled to the actual liability of \$12,050, resulting in an unreconciled variance of \$7,610. As this amount was not considered material to the financial statements, no audit adjustment was proposed. We recommend management establish internal control policies and procedures requiring timely reconciliation of the withholding taxes payable account.

2. Receivables

At September 30, 2020, employee receivables aged more than 90 days amounted to \$221,150, net of \$813 in subsequent collections, which resulted in such being supported by a corresponding allowance for uncollectible accounts of \$220,337. Furthermore, other receivables aged more than one year, totaling \$771,956, included \$246,978 due from a related party. In 2020, MISC implemented the policy of payment in advance or collection from the related party within a certain number of days after field trips. Such policy minimized the current receivable balance due from the related party; however, aged receivables remain uncollected and are dependent on the related party's cash availability. We recommend management establish internal control policies and procedures requiring an increase in collection efforts.

3. Capital Assets

During the year ended September 30, 2020, the following exceptions were noted:

1. An asset traded-in was not removed from the capital asset register. Furthermore, a related loss on trade-in of \$5,517 was not recognized.
2. MISC has not established policies and procedures governing estimated useful lives of capital assets.
3. Certain fixed assets were depreciated using an incorrect start date and a useful life inconsistent with the asset transfer schedule provided by a related party.
4. A certain fixed asset property tag was missing.
5. In 2017, the return of certain capital assets was not performed by the previous General Manager. Recovery of capital assets with an aggregate book value of \$2,139 as of September 30, 2020 has not occurred.
6. Groups of fixed assets were transferred from a related party but certain equipment could not be located.

We recommend management establish internal control policies and procedures requiring verification of condition and impairment assessment of capital assets as well as the determination for write-off of unused, disposed, or impaired balances and accuracy in calculation of depreciation.

SECTION I - CONTROL DEFICIENCIES, CONTINUED**4. Related Party Reconciliations**

At September 30, 2020, unreconciled rental charges payable of \$33,991 to a related party existed. We recommend management establish internal control policies and procedures requiring timely reconciliation of related party payables.

5. Cash Management

During the year ended September 30, 2020, cash and checks were not timely deposited to bank. The delay was represented to be due to employees being busy or few staff working and, as a result, no one made the deposit. In addition, we also noted discrepancies between Ebeye cash collections and bank deposits of \$3,402 on revenue collections from cargo and passengers. We recommend MISC establish internal control policies and procedures requiring timely bank deposits to minimize the risk of mishandling and theft of cash. Furthermore, we recommend management consider revisiting its manpower requirements.

6. Revenues

During the year ended September 30, 2020, we noted a sales transaction amounting to \$4,304 was collected and deposited but related delivery receipts were not made available and related cost of goods sold was not recorded. We recommend management establish internal control policies and procedures over the completeness of supporting delivery receipts.

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. Income Tax Act

MISC paid income taxes withheld for the payroll periods from October to November 2019 and January to February 2020 in a manner inconsistent with the Income Tax Act of 1989, specifically, withholding taxes of \$47,025 were not timely remitted. These were filed 16 to 46 days late from due date. We recommend management establish adequate internal control policies and procedures requiring compliance with the Income Tax Act.

2. Social Security Act and the Social Security Health Fund Act

MISC filed and paid employer and employee contributions withheld for the year ended September 30, 2020 in a manner inconsistent with RepMar Social Security Act and the Social Security Health Fund Act. Specifically, social security contributions for the following quarters were not timely filed and remitted:

<u>Quarter Ended</u>	<u>Amount Owed</u>	<u>Due Date</u>	<u>Date Filed and Paid</u>
June 30, 2020	\$ 72,467	7/10/2020	7/20/2020
September 30, 2020	\$ 65,399	10/10/2020	10/26/2020

We recommend management establish adequate internal control policies and procedures requiring compliance with the Social Security Act and Social Security Health Fund Act.

3. Voyage Analysis

Cargo manifests do not appear to be supported by an analysis/reconciliation to support the recorded amount of cargo revenue. We recommend a revenue analysis be performed per voyage to verify the reasonableness of recorded revenues against voyage data provided by the booking staff.

SECTION II - OTHER MATTERS, CONTINUED**4. Board Sitting Fees**

During the year ended September 30, 2020, MISC paid sitting fees of \$63,200 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus be subject to withholding taxes. No withholding taxes were withheld by MISC. We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on sitting fees paid to Board members.

5. Retail Price Monitoring Act of 1992

Sections 1109 and 1111 of the Act states that at any given time, essential commodity such as foodstuffs, fuel and other items that are essential and required to provide for the basic needs of life, shall not exceed 25% of the baseline price plus transportation and shipping costs. We noted certain essential goods sold at more than 25% of the purchase price. We recommend management to submit and obtain clearance from and coordinate with the Retail Price Monitoring Board on the markup and properly monitor selling prices of essential commodity.

6. Local Noncompliance - Procurement Code

RepMar's Procurement Code states the following:

- (a) 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.
- (b) Section 126.7 - award shall be made to the responsible offeror whose proposal is determined in writing to be the most advantageous to the Government taking into consideration price and the evaluation factors set forth in the Request for Proposals. No other factors or criteria shall be used in the evaluation. The contract file shall contain the basis on which the award is made.
- (c) Section 128 - a contract may be awarded for supply, service, or construction item without completion when it is determined in writing that there is only one source for the required supply, service, or construction item.

Supporting documentation was inadequate to evidence the procurement process utilized for the purchase of a pickup truck for \$25,000. We recommend management require that documentation be adequate to comply with applicable procurement requirements. Specifically, documentation should indicate the history of procurement including rationale for contractor selection and documentation of a sole provider.

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.