

December 29, 2022

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, 2021 (on which we have issued our report dated December 29, 2022), 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, 2021 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated December 29, 2022, 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, 2021 that we wish to bring to your attention:

1. Payroll

Of 40 payroll expenses tested, we noted the following exceptions:

- a. One employee (check # 164432) with a contract rate of \$3.09 per hour was underpaid using \$3 per hour; and
- b. Four employees (check #s 54194, 54253, 165190 and 169863) were underpaid for overtime worked using the employee's regular rate instead of the regular rate plus 15%.

We recommend management establish internal control policies and procedures over the review of payroll calculations.

2. Receivables

Employee Receivables:

As of September 30, 2021, employee receivables totaled \$241,673, including \$234,608 aged more than 90 days, for which a corresponding allowance for uncollectible accounts has been established. Employee receivables include \$71,997, representing three individual balances exceeding \$10,000, for which no repayment occurred during the year. In addition, employee receivables include the following:

- a. A \$9,475 cash shortage from Ebeye cargo and passenger revenue collections; and
- b. A \$19,238 advance to purchase vessel parts that was not utilized and was required to be returned. \$10,000 was subsequently returned with the remaining amount being collected through payroll deductions.

Trade and Affiliate Receivables:

As of September 30, 2021, trade and affiliate receivables totaled \$203,917 and \$688,402, respectively, including \$190,182 and \$550,140, respectively, aged more than 90 days, for which a corresponding allowance for uncollectible accounts of \$190,182 and \$439,132, respectively, has been established. Affiliate receivables include an amount due from Tobolar Copra Processing Authority of \$389,220 that has not been timely collected.

We recommend management establish internal control policies and procedures requiring an increase in collection efforts. This matter was discussed in our previous letters to management for the audits of fiscal years 2019 and 2020.

3. Capital Assets

During the year ended September 30, 2021, the following exceptions were noted:

- a. MISC has not established policies and procedures governing estimated useful lives of capital assets.
- b. Certain fixed asset property tags were missing.
- c. In 2017, the return of certain capital assets was not performed by the previous General Manager. Recovery of capital assets with an aggregate net book value of \$65 as of September 30, 2021 has not occurred.
- d. Certain fixed assets, with an aggregate net book value of \$1,733, were transferred to a related party; however, the assets were still included in the fixed asset register.

SECTION I - CONTROL DEFICIENCIES, CONTINUED**3. Capital Assets, Continued**

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. This matter was discussed in our previous letters to management for the audits of fiscal years 2018 through 2020.

4. Related Party Reconciliations

As of September 30, 2021, unreconciled rental charges payable of \$33,201 to a related party existed. We recommend management establish internal control policies and procedures requiring timely reconciliation of related party payables. This matter was discussed in our previous letters to management for the audits of fiscal years 2019 and 2020.

5. Cash Management

During the year ended September 30, 2021, cash and checks were not timely deposited. The delay was represented to be due to employees being busy or a few staff were working and, as a result, no one made the deposit. We recommend MISC establish internal control policies and procedures requiring timely bank deposits to minimize the risk of mishandling and theft of cash. This matter was discussed in our previous letters to management for the audits of fiscal years 2017 through 2020.

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. 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, 2021 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>
September 30, 2021	\$ 79,316	10/10/2021	10/18/2021

We recommend management establish internal control policies and procedures requiring compliance with the Social Security Act and Social Security Health Fund Act. This matter was discussed in our previous letter to management for the audit of fiscal year 2020.

2. 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. This matter was discussed in our previous letters to management for the audits of fiscal years 2018 through 2020.

3. Board Sitting Fees

During the year ended September 30, 2021, MISC paid sitting fees of \$57,200 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus may 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. This matter was discussed in our previous letters to management for the audits of fiscal years 2019 and 2020.

SECTION II - OTHER MATTERS, CONTINUED**4. Retail Price Monitoring Act of 1992**

Sections 1109 and 1111 of the Act states that at any given time, essential commodities 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 submit and obtain clearance from and coordinate with the Retail Price Monitoring Board on the markup and properly monitor selling prices of essential commodities. This matter was discussed in our previous letter to management for the audit of fiscal year 2020.

5. Employee Bonuses

During the year ended September 30, 2021, MISC paid Christmas and performance bonuses of \$18,377 to employees. These bonuses may constitute wages under the Income Tax Act 1989 and thus may 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 bonuses paid to employees.

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.