

Management Letter

Marshall Islands Shipping Corporation
(A Component Unit of the Republic of the Marshall Islands)

Year ended September 30, 2023



EY

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Ernst & Young (RMI), Inc.
P.O. Box 1288
Majuro, Republic of the Marshall
Islands 96960

Tel: 692 625 7387
ey.com

December 4, 2025

Mr. Danny Wase
General Manager
Marshall Islands Shipping Corporation

Dear Mr. Wase:

In planning and performing our audit of the financial statements of the business-type activities of Marshall Islands Shipping Corporation (MISC) as of and for the year ended September 30, 2023, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MISC's internal control. Accordingly, we do not express an opinion on the effectiveness of MISC's internal control.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters:

Accounts Receivable - Allowance for Doubtful Accounts

Condition: During our audit of accounts receivable, we noted that certain receivable balances amounting to \$438,381, which represented 70% of total receivable balances, have remained outstanding for an extended period with no evidence of recent collection efforts or updated assessments of collectability. These balances appear unlikely to be collected based on their age and have been fully provided for within the allowance for doubtful accounts.

Recommendation: We recommend that management perform a comprehensive review of all long-outstanding receivables, assess their collectability, and record appropriate write-offs in accordance with established accounting policies.

Voyage Analysis

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

Recommendation: We recommend that management perform a revenue analysis by voyage to verify the reasonableness of recorded revenues against voyage data provided by the booking staff.

Employees Authorized to Work

Condition: During our audit, we noted that MISC employed an individual who did not have a valid Marshall Islands Social Security Administration (MISSA) social security number (SSN) on file. Employing individuals without proper identification and work authorization documentation exposes MISC to potential compliance, payroll reporting, and regulatory risks.

Recommendation: We recommend that management strengthen hiring and onboarding procedures to ensure that valid SSNs and appropriate employment eligibility documentation are obtained and verified prior to an individual beginning work. Management should also review current employee files to confirm that all required documentation is complete and compliant with applicable laws and regulations.

Payroll-related Liability Account Reconciliations

Condition: During our audit, we noted that payroll-related liability accounts (RMI withholding taxes payable and MISSA contributions payable) were not reconciled on a regular basis. As a result, certain balances did not agree to supporting schedules or underlying payroll records resulting in a cumulative \$84,180 misstatement. Audit adjustments were proposed to correct this misstatement.

Recommendation: We recommend that management perform timely and periodic reconciliations of all payroll-related liability accounts and investigate any discrepancies promptly. Regular reconciliation helps ensure that recorded balances are accurate, amounts due are remitted in a timely manner, and potential errors or omissions are identified and corrected.

This communication is intended solely for the information and use of management, the Board of Directors, 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. However, this report is also a matter of public record.

At this time, we would like to thank all the staff and management of MISC for their cooperation extended to us during the course of our audit. We would be pleased to discuss the above matters or to respond to any questions, at your convenience.

Ernst + Young