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January 21, 2011

Mr. William Capelle
Acting General Manager
Air Marshall Islands, Inc.
P.O. Box 1319
Majuro MH 96960

Dear Mr. Capelle:

In planning and performing our audit of the financial statements of the Air Marshall Islands, Inc. (AMI), as of and for the year ended September 30, 2009 (on which we have issued our report dated January 21, 2011), 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 AMI'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 AMI's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of AMI'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 AMI's internal control over financial reporting and other matters as of September 30, 2009 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated January 21, 2011, on our consideration of AMI'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 AMI 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, deficiencies involving AMI's internal control over financial reporting as of September 30, 2009 that we wish to bring to your attention:

(1) Closed Bank Account

AMI has recorded a bank account (A/c # 10103, $1,578) which closed in 2004. We recommend that management ensure that only valid cash accounts are recorded. This matter was discussed in our previous letters to management for the audits of fiscal years 2005 through 2008.

(2) Petty Cash

At September 30, 2009, AMI recorded five petty cash accounts aggregating $1,714, which included a $250 account that had been closed in a prior year. An adjustment was proposed by management to eliminate the invalid account. We recommend that management ensure that only valid petty cash accounts are recorded.

(3) Revenue/Receipts

Of fifty-six passenger revenue items tested, we noted the following exceptions:

- Nine receipts were not timely deposited:

Ticket #	Fare ($)	Receipt Date	Deposit Date	Days Delayed
205338	15	12/10/2008	12/16/2008	6
207162	88	2/27/2009	3/03/2009	4
205628	171	3/13/2009	3/17/2009	4
205644	100	3/22/2009	3/26/2009	4
208823	244	5/10/2009	5/14/2009	4
210813	248	6/17/2009	6/24/2009	7
210933	152	7/30/2009	8/4/2009	5
208784	171	8/19/2009	8/25/2009	6
211249	101	9/1/2009	9/7/2009	6

- One charge ticket (# 205227) was flown in February 2009 but was not invoiced to an employee until September 2009. This employee is no longer employed.

- One damaged, unused ticket (# 211241) was shredded by the agent and was not returned to accounting for disposition.

Of thirteen other revenue items tested, we noted a $1,501 diversion on 4/25/2009 that was never billed; however, the customer paid on 4/28/2009.

Of fifteen cargo revenue items tested, we noted the following exceptions:

- Two receipts were not timely deposited:

Doc #	Amount	Receipt Date	Deposit Date	Days Delayed
979628	9.75	9/25/2009	10/02/2009	7
23389	183.35	10/03/2009	10/19/2009	16

(3) Revenue/Receipts, Continued

- Two receipts were incorrect:

Doc #	Date	Payment	Authorized Charges
975166	2/10/2009	62.05	54.75
22892	6/23/2009	40.85	40.80

We recommend that the revenue accounting department adhere to established policies and procedures pertaining to control over and issuance of ticket stock, timely and accurate invoicing of services, and timely deposit of collections. This matter was reported as a finding in the audits of fiscal years 1999 through 2008.

(4) Employee Receivables

At September 30, 2009, employee receivables represented 44% or $228,000 of total outstanding receivables. Approximately 63% or $143,000 of employee receivables are due from employees no longer employed and this amount is fully provided for by allowance.

We recommend that employee repayment agreements be prepared for future transactions and that management pursue legal collection of amounts past due. This matter was discussed in our previous letters to management for the audits of fiscal years 2006 through 2008.

(5) Employee Advances

At September 30, 2009, AMI recorded employee advances (A/c # 12741, $19,728) that include $5,628 that is over six months old. Further, two employees had advances exceeding $3,000 each that were over four months old. We recommend that management establish policies and procedures pertaining to employee advances that also address per diem.

(6) Receivables Written Off

AMI wrote off long outstanding other receivables (A/c # 12711) aggregating $97,402; however, approval was not documented. We recommend that management ensure that approval for write-offs is documented. This matter was discussed in our previous letter to management for the 2008 audit.

(7) Returned Checks Receivable

At September 30, 2009, AMI recorded returned checks receivable (A/c # 12714) of $34,736, 98% of which date back to prior years; and are fully provided for by an allowance. We recommend that management pursue legal collection and consider writing off those deemed uncollectible.

(8) Prepaid Expenses

At September 30, 2009, prepayments included $9,780 pertaining to a fixed asset which had been received during the year. An audit adjustment was proposed to record the addition and to eliminate the prepayment. We recommend that management establish policies and procedures pertaining to timely prepayment liquidation. This matter was discussed in our previous letter to management for the audit of fiscal year 2008.

(9) Unearned Income

We tested four unearned income items and noted one ticket (# 4010223534) that had been flown and therefore represented earned income. Further, the unearned income subsidiary ledger differed from the general ledger by $21,730, which was not considered material to the financial statements and therefore, no audit adjustment was proposed. We recommend that management ensure that tickets flown are accurately recorded and that unearned income is timely reconciled with the subsidiary ledger.

SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

(1) Lease Agreements

Lease agreements for Majuro and Ebeye offices expired on January 31 and March 1, 2006, respectively, and have not been renewed. Leases should be current to minimize disputes and to mitigate inherent legal risks. This matter was discussed in our previous letters to management for the audits of fiscal years 2005 through 2008.

(2) Segregation of Duties

Management believes that there is a very minimal risk regarding segregation of duties due to the size of the Company as well as the complexity of transactions; however, most systems of internal control rely on assigning certain responsibilities to different individuals or segregating incompatible functions. The following existing duties were noted to be incompatible:

- The person responsible for inventory custody also has access to inventory records and master files. This matter may mitigated by records maintained at accounting and the performance of periodic cut-off procedures.

- The person responsible for payroll computations also has access to employee data. Management believes that this incompatible function is mitigated since hirings, firings, promotions and demotions are reviewed and approved by the General Manager and the Chief Financial Officer.

This matter was discussed in our letters to management for the audits of fiscal years 2006 through 2008.

SECTION III – 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.

APPENDIX II

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

AMI'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.