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August 15, 2013

Mr. Jefferson Barton
CEO and General Manager
Air Marshall Islands, Inc.
P.O. Box 1319
Majuro MH 96960

Dear Mr. Barton:

In planning and performing our audit of the financial statements of Air Marshall Islands, Inc. (AMI) as of and for the year ended September 30, 2012 (on which we have issued our report dated August 15, 2013), 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, 2012 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated August 15, 2013, 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, control deficiencies involving AMI's internal control over financial reporting as of September 30, 2012 that we wish to bring to your attention:

1) Collections

- No significant movement was noted in receivables as 98% pertains to balances dated 2011 and prior. We recommend management increase its collection efforts. This matter was discussed in our previous letters to management in fiscal years 2009 to 2011.

- Unremitted sales collections from outer island agents resulted in an increase in employee receivables. We recommend management implement appropriate control policies requiring timely collections.

- Employee receivables for FY12 amounted to $210,044. Only 7% of FY11 balances were collected in FY12. This matter was discussed in our previous letters to management during the 2006 to 2011 audits.

- Cash shortages of $8,299 and cash overages of $6,171 resulted in net cash shortages of $2,128. It appears that there is inefficiency in cash sales and collection reconciliations that resulted in the net shortage. We recommend management enhance internal control policies over cash sales and collection reconciliations.

2) Unearned Revenues

- Several tickets expired based on AMI's policy. Tickets for domestic flights are valid for six (6) months after purchase and one (1) year for international flights. As of September 30, 2012, $3,363 of domestic flights were aged 6 months and beyond while $11,182 for international flights were aged over a year. We recommend management establish internal control policies relative to monitoring and updating unearned revenue.

3) Disbursements

- Invoices supporting $5,634 of cash payments were missing. Agreements were also not available supporting lease payments. We recommend management implement appropriate control policies that assist in filing of documents validating cash disbursement transactions and that leases be updated. This matter has been discussed in our previous letter to management for the audit of fiscal year 2011.

4) Flight Request Forms

- One flight request form was not properly dated. Another flight request form was dated beyond the flight schedule. We recommend management implement policies that provide documentation for every recorded business transaction.

5) Revenues

- Several passenger tickets did not indicate the check number. It is a requirement that sales agents indicate the check number on the ticket. In addition, excess baggage tickets were found without a name or related ticket numbers. We recommend management adopt policies over reconciliation, reporting, and validation procedures. This matter has been discussed in our previous letter to management for the audit of fiscal year 2011.

5. Revenues, Continued

- Tickets were not properly classified as to passenger type and therefore it was not possible to validate the applied rate. We recommend management adopt policies over passenger tickets to facilitate validation and confirmation.

- A ticket was refunded but was reflected in the September 30, 2012 Unearned Revenue Report. We recommend management establish controls over monitoring unearned revenues.

- Passenger tickets were incorrectly recorded as freight revenue. We recommend management independently review journal entries prior to posting.

- An invoice for charter revenue was not properly dated. While the transaction took place in March 2012, it was dated in March 2013. An invoice for Flight Request # 1265 was not available. We recommend management implement control policies over documents validating revenue transactions.

6. Bank reconciliations

- A reviewer's signature is not evident on bank reconciliations. We recommend management require documentation of independent review of bank reconciliations.

SECTION II – OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws 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) Segregation of Duties

- Management believes that there is minimal risk regarding segregation of duties due to the size of AMI as well as the simplicity of transactions; however, most systems of internal control rely on assigning responsibilities to different individuals or segregating incompatible functions. We noted that the person responsible for inventory custody also has access to inventory records and master files. Furthermore, we noted that actual count at year-end, evidenced by the inventory sheet was not reflected in the inventory valuation report. This matter may be mitigated by records maintained at accounting and the performance of periodic cut-off procedures. This matter was discussed in our previous letters to management in the audits of fiscal years 2006 through 2011.

2) Payroll Withholding Tax Returns

- Unremitted withholding tax of $95,443 occurred during FY12 increasing total unremitted taxes to $604,647, including penalties and interest. Tax returns were not timely filed during fiscal year 2012, resulting in penalties and interest. This matter was discussed in our previous letter to management in the audit of fiscal years 2010 and 2011. We recommend management timely file and remit withholding taxes.

3) Information Technology Policies

- System back up procedures are not frequently performed. The Company does not have documented IT policies. We recommend management implement frequent system backups to minimize opportunity for data loss. Management may also consider the adoption of formal IT policies. This matter was discussed in our previous letter to management in the audit of fiscal year 2011.

4) Employee Manual and Permanent Files

- The AMI employee manual last revision occurred more than ten years ago. No annual employee assessment and review is conducted to assess employee performance. AMI has not consistently provided an Employee Code of Conduct to its employees, which may result in employee actions outside of AMI's vision, mission, policies and procedures, and governing laws and regulations. We recommend management consider revisiting and updating the employee manual and provide an employee code of conduct to address updates on employee related matters and to guide personnel on Company policies, employee code of conduct and ethics. Management may also consider conducting annual employee performance assessments to address manpower efficiency and effectiveness. This matter was discussed in our previous letter to management in the audit of fiscal year 2011.

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 Company 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

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.