

**AIR MARSHALL ISLANDS, INC.
(A COMPONENT UNIT OF THE REPUBLIC
OF THE MARSHALL ISLANDS)**

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL AND ON COMPLIANCE**

YEAR ENDED SEPTEMBER 30, 2006

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Chairman
Board of Directors
Air Marshall Islands, Inc.:

We have audited the financial statements of Air Marshall Islands, Inc. (AMI), as of and for the year ended September 30, 2006, and have issued our report thereon dated June 13, 2008. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered AMI's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect AMI's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings (pages 3 through 7) as items 2006-1 through 2006-4.

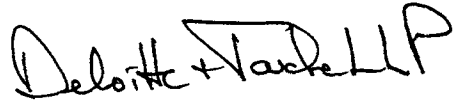
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AMI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of AMI in a separate letter dated June 13, 2008.

This report is intended solely for the information and use of the Board of Directors and management, the federal awarding agencies, pass-through entities, the cognizant and other federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte + Stach LLP". The signature is written in a cursive, stylized font.

June 13, 2008

AIR MARSHALL ISLANDS, INC.

Schedule of Findings
Year Ended September 30, 2006

Revenues/Receipts

Finding No. 2006-1

Criteria: Revenues/receipts should be properly documented and maintained.

Condition:

a. Cargo revenue: Of thirty cargo revenue items tested, we noted the following:

- Baggage coupon number 15829 was not located:
- Rates per pound were incorrect for the following documents:

<u>Document</u>	<u>Document Rate</u>	<u>Actual Rate</u>
<u>Baggage Coupon</u>		
17384	0.60	0.55
<u>Airway Bill</u>		
948808	0.65	0.70
94126	0.50	0.95
94155	0.75	0.65
960055	0.50	0.55
960389	0.50	0.55

- The domestic airway bill report does not contain the gross cargo weight for AWB 94126 and 94155. Therefore, verification of the correctness of the billing could not occur.

b. Charter revenue: Of twenty charter revenue items tested, we noted the following:

- Customers were not invoiced in a timely manner for the following items:

<u>Request #</u>	<u>Flight Date</u>	<u>Invoice Date</u>
587	25-Oct-05	26-Oct-05
612	27-Dec-05	28-Dec-05
658	3-Mar-06	10-Mar-06
707	5-Jul-06	20-Aug-07

c. Outer island revenue: Based on examination of 50 airway bills, seven tickets had an earlier date than as listed in the sales report:

<u>Air Way Bill Numbers</u>	<u>Date of Sales Report</u>	<u>Flight Date per Ticket</u>	<u>Days Delayed</u>
1 5500-162297	7/22/2006	7/14/2006	8
2 5500-166817	2/11/2006	2/1/2006	10
3 5500-171117	4/15-17/2006	4/28/2006	11
4 5500-173825	5/31/2006	5/6/2006	25
5 5500-176091	1/25/2006	1/23/2006	2
6 5500-176665	3/12/2006	3/9/2006	3
7 5500-178060	8/7/2006	8/4/2006	3

AIR MARSHALL ISLANDS, INC.

Schedule of Findings, Continued
Year Ended September 30, 2006

Revenues/Receipts, Continued

Finding No. 2006-1, Continued

Cause: The cause of the above condition is the lack of adherence to established policies and procedures relating to control over and issuance of ticket stock and the depositing of receipts.

Effect: The effect of the above condition is the possible misstatement of cash, revenues, unearned revenues and expenses.

Recommendation: We recommend that management ensure that the revenue accounting department adheres to established policies and procedures.

Prior Year Status: Lack of adherence to established policies and procedures relating to control over the issuance of ticket stock was reported as a finding in the audits of AMI for fiscal years 1999 through 2005.

Auditee Response and Corrective Action Plan: The relevant staff have been instructed to adhere to set policies and procedures for issuing and reporting tickets.

AIR MARSHALL ISLANDS, INC.

Schedule of Findings, Continued
Year Ended September 30, 2006

Receivables

Finding No. 2006-2

Criteria: Reconciliation of accounts receivables.

Condition: The general ledger balances were reconciled to the accounts receivable subsidiary ledger as of September 30, 2006; however, certain reconciling items were not included or were improperly adjusted.

Cause: There was no documented review of the accounts receivable reconciliation.

Effect: A possible misstatement of accounts receivable could result.

Recommendation: Reconciliation aids in detecting errors and ensuring that account balances are consistent. The reconciliation process may identify reconciling items (e.g., timing differences) or discrepancies that require adjustment. These differences should be resolved in a timely manner.

Auditee's Response: Reconciliation will be done regularly to identify items that require immediate adjustment(s).

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Schedule of Findings, Continued
Year Ended September 30, 2006

Inventories

Finding No. 2006-3

Criteria: Reconciliation of inventory quantities should occur from the inventory management system to actual quantities counted.

Condition: Almost all invoices requested for test purposes were provided; however, the process was difficult due to incomplete or inconsistent information.

Cause: No reconciliation occurred between the accounting and inventory department resulting in incomplete or inconsistent information.

Effect: A possible misstatement of inventory could result from the condition.

Recommendation: The process may be more efficient if there is a complete and consistent reference point. Reconciliation of information between the accounting and inventory department may also contribute to enhancing the effectiveness and efficiency of information.

Auditee's Response: The reference point is the part number which is not maintained by accounting. This makes it difficult to trace the invoices. We have improved the traceability of these items in FY07.

AIR MARSHALL ISLANDS, INC.

Schedule of Findings, Continued
Year Ended September 30, 2006

Accounts Payable

Finding No. 2006-4

Criteria: Reconciliations of accounts payable should periodically occur.

Condition: Thirteen vendor statements differed from AMI recorded balances. Additionally, reconciliations of certain vendor balances were not timely prepared.

Differences between vendor statements and AMI balances are as follows:

<u>Vendors</u>	<u>Per Vendor</u>	<u>Per AMI</u>	<u>Difference</u>
MISSA	\$ 305,143	\$ 289,742	\$ 15,401
RMI Ports Authority	124,196	123,672	524
Volvo	105,287	100,443	4,844
Directorate of Civil Aviation	90	82,574	(82,484)
MEC	<u>7,118</u>	<u>9,258</u>	<u>(2,140)</u>
	\$ <u>541,834</u>	\$ <u>605,689</u>	\$ <u>(63,855)</u>

Reconciliations not timely prepared are as follows:

<u>Vendor</u>	<u>Per Reconciliation</u>	<u>Per AMI</u>	<u>Difference</u>
QBE Insurance	\$ 61,897	\$ 61,897	\$ -
Finova Capital Plc	39,150	29,212	9,938
Learjet	19,746	19,565	181
Elm Motors	<u>10,670</u>	<u>10,323</u>	<u>347</u>
	\$ <u>131,463</u>	\$ <u>120,997</u>	\$ <u>10,466</u>

Cause: No documented review of an accounts payable reconciliation could be located throughout the year.

Effect: A possible misstatement of accounts payable could result from the condition.

Recommendation: Timely reconciliation of supplier statements and the accounts payable subledger will assist in ensuring reliable accounts payable information. Differences identified may relate to returned or non-received items, or may relate to timing differences.

Auditee's Response: These were attributed to timing differences.

AIR MARSHALL ISLANDS, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2006

The status of unresolved prior year findings is disclosed within the Schedule of Findings section (pages 3 to 7) of this report.