

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, 2008

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, 2008, and have issued our report thereon dated May 1, 2009. 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 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 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses (pages 3 through 8) as items 2008-1 through 2008-5 to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

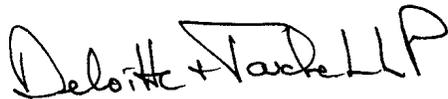
Compliance and Other Matters

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 May 1, 2009.

AMI's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit AMI's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors, and others within the entity, 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 + Touche LLP". The signature is written in a cursive, stylized font.

May 1, 2009

AIR MARSHALL ISLANDS, INC.

Schedule of Findings and Responses
Year Ended September 30, 2008

Finding No. 2008-1

Revenues/Receipts

Criteria:

Revenue/receipts should be documented and maintained.

Condition:

A. Cargo revenue

Of 7 cargo revenue items tested, we noted the following exceptions:

- 2 prior year transactions were recorded in the current year:

	Airway Bill #	Document Date	Payment
1	972419	9/29/2007	7.00
2	972420	9/29/2007	6.50

- 1 transaction used the wrong cargo rate; rate used was \$.85 instead of \$.70 per pound.

We recommend that management ensure that all transactions are recorded in the appropriate period and correct rates per pound be used.

B. Passenger Revenue

Of 35 charter revenue items examined, we noted the following exceptions:

- 8 prior year transactions were recorded in the current fiscal year.

	Document Number	Date of Flight	Fare (\$)	Payment Date/ Invoice Date
1	199402	9/15/2007	107	9/3/2007
2	199452	9/17/2007	92	9/14/2007
3	199504	9/26/2007	92	9/26/2007
4	199634	9/17/2007	111	9/14/2007
5	199651	9/16/2007	354	9/14/2007
6	199672	9/17/2007	10	9/17/2007
7	199703	9/24/2007	107	9/24/2007
8	199867	9/28/2007	111	9/26/2007

AIR MARSHALL ISLANDS, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2008

Finding No. 2008 – 1, Continued

Revenues/Receipts

- 13 documents were not timely deposited to banks:

	Document Number	Fare (\$)	Payment Date/ Invoice Date	Deposit Date	Days delayed in Deposit
1	199402	107	9/3/2007	9/10/2007	7
2	199703	107	9/24/2007	10/1/2007	7
3	199752	118	5/27/2008	6/3/2008	7
4	199755	100	5/27/2008	6/3/2008	7
5	199772	118	6/5/2008	7/1/2008	26
6	199820	46	9/21/2007	9/27/2007	6
7	199867	111	9/26/2007	10/1/2007	5
8	199962	224	9/26/2007	10/9/2007	13
9	200171	15	5/9/2008	5/18/2008	9
10	200181	202	5/10/2008	5/14/2008	4
11	200563	86	6/27/2008	7/1/2008	4
12	200561	101	6/27/2008	7/1/2008	4
13	200582	122	6/27/2008	7/1/2008	4

We recommend that management ensure that all transactions are recorded in the appropriate period and all collections be deposited intact and on a timely basis.

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

Recommendation: We recommend that management prepare a written policy to serve as a formal document for passengers and employees. Furthermore, the revenue accounting department should adhere to established policies and procedures relating to control over and issuance of ticket stock and the timely deposit of cash receipts. Management should also ensure that important information, such as gross weights, is indicated in the report.

Prior Year Status: Lack of adherence to established policies and procedures relating to control over and issuance of ticket stock was reported as a finding in the audits of AMI for fiscal years 1999 through 2007.

Auditee Response and Corrective Action Plan: The existing practice shall be documented accordingly.

AIR MARSHALL ISLANDS, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2008

Finding No. 2008-2

Unearned Income

Criteria: Reconciliation between the unearned income subledger and general ledger balance should be performed timely and periodically.

Condition: A difference of \$57,274 was noted between the unearned income general ledger account and the subsidiary ledger. The difference was discussed with management who indicated that the difference may be due to timing.

Cause: There was no review of unearned income reconciliations.

Effect: A possible misstatement of unearned income balance.

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.

Prior Year Status: Lack of reconciliation between subsidiary ledger and general ledger was reported as a finding in the audits of AMI for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan: Month end may not be attainable; however we suggest that this be done on a quarterly basis effective 2009.

AIR MARSHALL ISLANDS, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2008

Finding No. 2008-3

Expendable Parts

Criteria: Information per inventory management system and per accounting department should be reconciled.

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

Cause: There was no reconciliation 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.

Prior Year Status: Lack of reconciliation between inventory management system and accounting records was reported as a finding in the audits of AMI for fiscal years 2006 and 2007.

Auditee Response and Corrective Action Plan: The reference point is the part number, but because of reduction in manning complement (spares) and bigger sample size, makes the process quite challenging. This will be corrected accordingly.

AIR MARSHALL ISLANDS, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2008

Finding No. 2008-4

External Financial Reporting

Criteria: General journal entries should be reviewed before being posted to the general ledger.

Condition: Based on discussion with management, adjustments are prepared by the accountants and are to be reviewed by management before being posted to the system. However, it appears that the review process is not effective.

Cause: Journal entries are not always subject to review.

Effect: A possible misstatement of financial statements can occur due to the condition.

Recommendation: We recommend that management thoroughly review all transactions before posting. Management should ensure that all transactions are completely supported.

Prior Year Status: Lack of review was reported as a finding in the audit of AMI for fiscal year 2007.

Auditee Response and Corrective Action Plan: Adjustments shall be reviewed and double checked before posting.

AIR MARSHALL ISLANDS, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2008

Finding No. 2008-5

External Financial Reporting

Criteria: Adjustments posted in the subsidiary ledger should be supported by valid documents.

Condition: During the examination of other revenue, we noted a \$55,000 transaction which was adjusted against unearned income, but was not supported by valid documents. Per further verification, this adjustment was used to reconcile the unearned income account. We recommend that management ensure that all adjustments be supported by valid documents. Management should review and analyze the transactions before adjusting accounts.

Cause: The condition resulted from inadequate review of posted journal entries.

Effect: A possible misstatement of financial statements can arise from the condition.

Recommendation: We recommend that all adjustments be posted through the subsidiary ledger. Furthermore, all adjustments should be recorded based on valid supporting documents. Management should obtain all such documents prior to recordation.

Prior Year Status: Lack of valid documents was reported as a finding in the audit of AMI for the fiscal year 2007.

Auditee Response and Corrective Action Plan: We will require supporting documents or reconciliation of accounts before any adjustments are made in the GL.

AIR MARSHALL ISLANDS, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2008

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section (pages 3 through 8) of this report.