Deloitte.

Deloitte & Touche LLP
361 South Marine Corps Drive
Tamuning, GU 96913-3911
USA
Tel: (671)646-3884
Fax: (671)649-4932
www.deloitte.com

May 1, 2009

Board of Directors
Air Marshall Islands, Inc.

Dear Members of the Board:

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, 2008 (on which we have issued our report dated May 1, 2009), 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, 2008 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors and management, also dated May 1, 2009, 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 noted no matters related to control deficiencies involving AMI's internal control over financial reporting as of September 30, 2008 that we wish to bring to your attention:

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. Cash in a Closed Bank Account

As of September 30, 2008, AMI recorded cash in bank (A/c # 10103, $1,578) for an account which closed in 2004. This matter was noted during our 2005 to 2007 audits. Management should ensure that only valid cash accounts are recorded.

2. Accounts for Write-off should be Documented

Long outstanding accounts of $24,000 were written off, but approval was not documented. Management should ensure that write-off are correctly authorized.

3. Repayment Agreements should be Prepared for Sales to Employees

As of September 30, 2008, approximately 28% or $203,000 of total outstanding receivables are from employees. About 69% or $140,000, resulted from resigned employees. The resigned employees are fully provided by allowance, and currently, credit has been extended to only a few employees.

We recommend that repayment agreements be prepared for future transactions with employees and that management pursue legal collection of past amounts due. This matter was discussed in the 2006 and 2007 audits.

4. Long Outstanding Accounts Receivable

At September 30, 2008, AMI recorded other receivables (A/c # 12711, $92,117) that included balances outstanding since September 1998. The balance includes a receivable from Pacific Air Express (PAE) of $62,291, which contains three disbursements totaling $18,190, made on behalf of PAE for which no invoice was issued. PAE has previously indicated that they have no outstanding balances with AMI.

We recommend that management follow up with PAE regarding amounts due to and from them to resolve the outstanding balance. Furthermore, we recommend that management ensure that disbursements made on behalf of third parties are invoiced and collected in a timely manner. This matter was discussed in the 2000 to 2007 audits.

5. Differences in Price Testing

Prices for several inventory items were incorrectly posted in the system resulting in an approximate variance of $24,000 at fiscal year-end. Based on discussion, the error was a result of incorrect system input of inventory prices. Since there was no reconciliation of inventory count records to the general ledger, the error was not timely corrected.

We recommend that management reconcile inventory records to the general ledger. Adjustments processed to inventory should be reported to management and compared to authorized source documents to ensure that the changes were input accurately.

6. Prior Year's Management Letter Comments were not Resolved

We noted that most of the prior years' comments were not subsequently corrected or efforts have not been demonstrated. We recommend that management review these observations and recommendations and implementing them accordingly.

7. Prepayment was not Properly Adjusted

Approximately $189,000 of prepayments were not correctly reclassified to inventory, fixed assets or expense accounts in a timely manner even though they were already received or used during the year. We recommend that a formal policy be developed and implemented to require that prepayments be timely adjusted.

8. Missing Documents

One of six prepaid asset documents could not be located. The accounting department represented that the missing document was an isolated case. We recommend that the accounting department ensure that all documents are completely filed.

9. Fixed Assets

During the examination of the fixed asset register, we noted two line items which pertain to one fixed asset. Per further verification, we noted that the first line item refers to a security deposit, while the 2nd line item refers to the fixed asset. This recording may incorrectly indicate that there are 2 items, with 2 different costs. AMI should identify all capital assets and include them in the fixed asset register with the same level of detail as on-site assets. Management should ensure that assets are correctly recorded.

10. No Mechanic Signature on Work Cards

Three of 28 fixed asset work cards verified were not signed by the mechanic to evidence that the asset was used in the aircraft. Management represented that a review of the asset occured but was not documented. We recommend that appropriate personnel review assets and that these reviews be documented.

11. Fixed Asset Register Updates

Based on our observation, it appears that the fixed asset register does not consistently use serial numbers or other identification information. While most of the fixed assets subjected to existence testing were located, identification was difficult due to insufficient information. Some items were described based on vendor names while some had generic descriptions. This may not represent a problem if part numbers or serial numbers were included in the register. However, serial numbers or asset numbers were not consistently used. Items were located based on historical costs and dates.

This was noted in the prior year, and based on prior year's management response, management will improve the fixed asset register in the next fiscal year. However, it does not appear that this was implemented.

We will reiterate our recommendation for management to review the asset register on a periodic basis to identify significant changes.

12. Retained Earnings, Beginning should be Adjusted

The beginning retained earnings balance did not agree with the audited balances from the prior year. Approximately $9,000 of the total difference resulted from unposted prior year audit adjustments while approximately $20,000 represented unresolved differences. AMI should ensure that audit adjustments are posted timely and accurately in the month received.

13. Lease Contract Agreements

Lease agreements for Majuro and Ebeye offices expired on January 31 and March 1, 2006, respectively. Lease agreements for both offices were not renewed.

Lease agreements should be prepared to minimize disputes or to mitigate inherent legal risks. Lease agreements should be current.

14. 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 the custody of inventory 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 the hiring, firing, promotion and demotion are reviewed and approved by the General Manager and the Chief Financial Officer.

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.

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.