

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, 2007

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, 2007, and have issued our report thereon dated June 30, 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 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 10) as items 2007-1 through 2007-6 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.

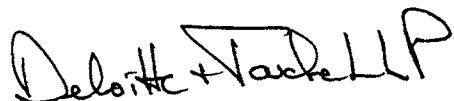
Compliance and Other Matters

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 June 30, 2008.

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.

June 30, 2008

AIR MARSHALL ISLANDS, INC.

Schedule of Findings and Responses
Year Ended September 30, 2007

Finding No. 2007-1

Revenues/Receipts

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

Condition:

a. Cargo Revenue: Of thirty-five (35) cargo revenue items tested, we noted the following exceptions:

- The domestic Airway Bill report did not contain information for the following documents; hence, verification of the correctness of the billing could not occur:

<u>Document Ref</u>	<u>Missing Information</u>
964744	Date
967434	Date
971842	Rate
964062	Date
964746	Date

- Minimum charges for freight and excess baggage are \$5 for cash sales and \$10 for charge sales; however, this policy is not in writing.

b. Passenger revenue: Of one hundred twenty-nine (129) passenger and charter revenue items tested, we noted the following exceptions:

- The following items were not issued in sequential order:

<u>Ticket #</u>	<u>Amount (\$)</u>
5500184572	\$ 87
5500196553	55
5500199632	116
5500187253	101
5500189094	101
5500183449	64
5500197107	152
5500193170	55
5500186730	67
5500190960	10
5500187230	101
5500184905	122

- The following item, where the amount charged was different from the standard rate, was not supported by an agreement:

<u>Ticket #</u>	<u>Standard Rate</u>	<u>Charged Rate</u>	<u>Difference</u>
4010221320	\$250	\$190	\$60

AIR MARSHALL ISLANDS, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Finding No. 2007 – 1, Continued

Revenues/Receipts

- The daily revenues on the following dates were not deposited intact as a portion was used to purchase fuel:

Date

8/02/2007
8/15/2007
8/27/2007

- The following items were not timely deposited to banks:

<u>Document Number</u>	<u>Payment Date</u>	<u>Deposit Date</u>	<u>Days delayed in Deposit</u>
5500188008	3/29/2007	4/10/2007	4
5500185141	12/15/2006	12/19/2006	4
5500182408	10/5/2006	10/9/2006	4
4200271502	8/20/2007	8/24/2007	4
5500182672	12/29/2006	1/2/2007	4
5500187253	2/9/2007	2/13/2007	4
5500193170	6/8/2007	6/12/2007	4
5500182410	10/5/2006	10/9/2006	4
5500190960	7/12/2007	7/17/2007	5
5500196553	7/14/2007	7/20/2007	6
4200271309	7/12/2007	7/18/2007	6
4010221491	8/3/2007	8/9/2007	6
5500184572	1/8/2007	1/15/2007	7
5500195031	7/27/2007	8/3/2007	7
5500184574	1/8/2007	1/15/2007	7
5500183632	10/31/2006	11/8/2006	8
5500191353	7/8/2007	7/18/2007	10
5500186005	1/5/2007	1/15/2007	10
5500184808	1/7/2007	1/18/2007	11
5500186081	3/8/2007	3/20/2007	12
5500190365	3/29/2007	4/2/2007	12
4010220914	5/24/2007	6/11/2007	18

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 deposit of receipts.

AIR MARSHALL ISLANDS, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Finding No. 2007 – 1, Continued

Revenues/Receipts

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 2006.

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, 2007

Finding No. 2007-2

Receivables/Payables

Criteria: Reconciliations between the accounts receivable/accounts payable subledgers and general ledger balances should be performed periodically and in a timely manner.

Condition: A difference of \$4,111 was noted between the accounts receivable general ledger account and the subsidiary ledger; while a difference of \$2,818 was noted between the accounts payable general ledger and the subsidiary ledger. The differences were discussed with the management, who indicated that the differences may be due to timing.

Cause: There was no proper review of accounts receivable/accounts payable reconciliations.

Effect: A possible misstatement of accounts receivable/accounts payable balances.

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 audit of AMI for fiscal year 2006.

Auditee Response and Corrective Action Plan: Month end may not be attainable; however we suggest that this be done on a quarterly basis effective 2008.

AIR MARSHALL ISLANDS, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Finding No. 2007-3

Expendable Parts

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

Condition: Almost 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 to incomplete or inconsistent information.

Effect: A possible misstatement of inventory account balance.

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 audit of AMI for fiscal year 2006.

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, 2007

Finding No. 2007-4

Accounts Payable

Criteria: Reconciliation of vendor statements should be performed periodically and in a timely manner.

Condition: Nine vendors were examined, and we noted that the balances per vendor statements differed from AMI's balances. Additionally, reconciliations for certain vendors were not timely prepared.

Difference between vendor's statement and AMI balance:

<u>Vendors</u>	<u>Per Vendor</u>	<u>Per AMI</u>	<u>Difference</u>
MISSA	\$ 154,786	\$ 160,372	\$ (5,586)
RMI Ports Authority	167,304	132,968	34,336
Directorate of Civil Aviation	80	82,574	(82,494)
Volvo	49,715	44,871	4,844
Deloitte and Touche	45,000	35,000	10,000
Honeywell	23,316	10,997	12,319
	<u>\$ 440,201</u>	<u>\$ 466,782</u>	<u>\$ (26,581)</u>

Cause: There was no review of reconciliation of accounts payable throughout the year.

Effect: A possible misstatement of accounts payable account balances.

Recommendation: Accounts payable staff should verify the correctness of payments to suppliers or subcontractors. Timely reconciliation of supplier statements and the accounts payable subledger will also assist in ensuring reliable accounts payable information. Differences identified may relate to returned or non-received items, or may relate to timing differences.

Prior Year Status: Lack of accounts payable reconciliation was reported as a finding in the audit of AMI for fiscal year 2006.

Auditee Response and Corrective Action Plan: Most of the suppliers are outside of the country and getting the statement of accounts and invoices on a timely manner for reconciliation requires time and effort on the part of the AP Staff. We are trying to improve in this regard (reconciliation).

AIR MARSHALL ISLANDS, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Finding No. 2007-5

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, considering the number of adjustments noted in the prior year as well as the current year, it appears that the review process is not effective.

Cause: Journal entries are not always subject to review.

Effect: A possible misstatements of financial reports 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.

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

AIR MARSHALL ISLANDS, INC.

Schedule of Findings and Responses, Continued
Year Ended September 30, 2007

Finding No. 2007-6

External Financial Reporting

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

Condition: During the examination of MISSA payables, we noted that transactions totaling \$72,547 were manually adjusted in the general ledger instead of in the subsidiary ledger. This resulted in a significant difference between the subsidiary ledger and the general ledger. It was further noted that the transaction was solely posted to the general ledger no supporting document was in hand at the time. The supporting document was subsequently provided by MISSA.

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

Effect: A possible misstatement of financial reports 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.

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

AIR MARSHALL ISLANDS, INC.

Unresolved Prior Year Findings
Year Ended September 30, 2007

The status of unresolved prior year findings is disclosed within the Schedule of Findings and Responses section (pages 3 to 10) of this report.