[Company Letterhead]

Date: [Insert Date]

To: [Insert Name of Plan Fiduciary/Board of Directors]
From: [Insert Auditor/Consultant Name]
Subject: Initial Assessment of Internal Controls over ESOP Valuation Processes

Dear [Insert Name],

We have completed our initial assessment of the internal controls surrounding the annual valuation of the [Insert Company Name] Employee Stock Ownership Plan (ESOP) for the period ending [Insert Date]. The purpose of this assessment was to evaluate the adequacy of the design and implementation of controls governing the determination of the fair market value of employer securities.

Scope of Assessment:
Our review focused on the following key control areas:

- Selection and oversight of the independent qualified appraiser.
- Accuracy and completeness of financial data provided to the appraiser.
- Management's review and challenge of the valuation report assumptions and methodology.
- Internal communication protocols between the Plan Trustee and Company Management.

Initial Observations:
Based on our preliminary procedures, we identified the following areas regarding the valuation control environment:

1. Control Design: [Insert brief description of whether controls are appropriately designed, e.g., "The current controls appear sufficient to ensure data integrity, however, formal documentation of the review process is inconsistent."]

2. Identified Gaps:

- [Insert Gap 1: e.g., Lack of a formal checklist for reviewing the appraiser's discounted cash flow assumptions.]
- [Insert Gap 2: e.g., Insufficient documentation regarding the reconciliation of audited financial statements to the data used in the valuation.]

Recommendations:
To strengthen the control environment and mitigate risks related to fiduciary liability and regulatory scrutiny, we recommend the following:

- Implement a formal "Valuation Review Memorandum" to document the Fiduciary's critique of the valuation report.

- Establish a secondary review process for all participant-level data provided to the appraiser.

This letter is intended solely for the information and use of Management and the Board of Directors and is not intended to be used by anyone other than these specified parties.

We look forward to discussing these findings with you in further detail.

Sincerely,

[Insert Signature]
[Insert Name and Title]