[Date]

To the Board of Directors and Management
[Company Name]
[Company Address]

Subject: Management Letter Regarding Material Weaknesses in Internal Controls over ESOP Valuation

In connection with our audit of the financial statements of [Company Name] (the "Company") and the [ESOP Plan Name] (the "Plan") as of [Fiscal Year End Date], we have reviewed the internal controls related to the valuation of the Company's common stock held by the Plan.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

We identified the following material weaknesses concerning Employee Stock Ownership Plan (ESOP) valuation controls:

1. Lack of Independent Review of Valuation Assumptions

The Company relies on an external valuation specialist to determine the fair market value of the stock. However, management failed to perform a documented, critical review of the key assumptions used by the specialist, including projected revenue growth, discount rates, and selected peer multiples. Without an internal challenge of these inputs, there is an increased risk of overvaluation or undervaluation.

2. Inadequate Controls over Data Accuracy

The data provided to the valuation specialist, specifically the multi-year financial forecasts and EBITDA adjustments, was not subjected to the Company's standard internal verification procedures. Errors in the underlying financial data provided to the appraiser could lead to an inaccurate terminal value calculation.

3. Insufficient Oversight of the Fiduciary Process

There is a lack of formal documentation regarding the ESOP Trustee's review and acceptance of the final valuation report. The absence of a formal sign-off process indicates a failure in the fiduciary oversight required to ensure the valuation meets ERISA and Department of Labor standards.

Recommendations:

- Implement a formal Valuation Committee to review and approve all appraisal reports annually.
- Create a standardized checklist to verify that all financial data sent to third-party appraisers matches audited financial records.
- Maintain detailed minutes of meetings where valuation assumptions are discussed and challenged by management and the Trustee.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization. It is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

[Auditor Name/Firm Name]
[Title]