# WASHINGTON TEACHERS UNION
# OPTION 2 VEBA

## REPORT ON INTERNAL CONTROL MATTERS
## BASED SOLELY ON FINANCIAL STATEMENT AUDIT

YEAR ENDED JUNE 30, 2014

CALIBRE
CPA GROUP
Bethesda, MD

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To the Trustees of
Washington Teachers Union
Option 2 VEBA

In planning and performing our audits of the financial statements of Washington Teachers Union Option 2 VEBA (the Plan) as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Plan's internal control over financial reporting (internal control) 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 the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

A significant deficiency is a deficiency, or combination of deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Calibre CPA Group, PLLC

Bethesda, MD
April 8, 2015

7501 Wisconsin Avenue | Suite 1200 West | Bethesda, MD 20814 | T: 202.331.9880 | F: 202.331.9890 | calibrecpa.com

## Material Weaknesses

### 2014-01 - FORMAL AGREEMENT FOR ADMINISTRATIVE EXPENSES

During our audits, we noted the Plan was making payments to the Washington Teachers Union (WTU) for certain administrative expenses, including the plan administrator's salary. However, we noted there was no formal agreement between the Plan and WTU.

We recommend a formalized agreement be drafted and approved between the Plan and WTU. This agreement should clearly outline what services are to be provided by WTU, and a methodology for determining a fair and equitable way to charge the funds for these services.

In addition, we noted there was no written document to support the time charged to the Plan by the plan administrator. We recommend a formal procedure be implemented so that there is contemporaneous, written documentation to support the amount allocated to the Plan by WTU for the plan administrator's salary.

### 2014-02 - PREPARATION OF COMPLETE FINANCIAL STATEMENTS PRIOR TO START OF AUDIT

An organization's system of internal controls should provide a mechanism for management to detect timely possible misstatements in the financial statements. Even though it is acceptable for management to delegate certain reporting functions to third parties, management must accept ultimate responsibility for whether the amounts and disclosures presented in the financial statements are in fact fairly presented and complete.

In non-public organizations it is not uncommon for the independent auditors to assist the organization in the preparation of their financial statements. In those circumstances, professional standards require that the Board of Trustees be made aware of the procedures we performed during our audit at the request of management to assist them in preparing the financial statements.

After obtaining the unadjusted trial balance from the Plan, we proposed several adjusting journal entries and assisted in drafting the financial statements in the proper format with appropriate notes. Management was aware these journal entries had to be made in order for the financial statements of the Plan to be presented in accordance with accounting principles generally accepted in the United States of America. The drafted financial statements were read, reviewed and approved by management.

We recommend management consider whether it would be practical, efficient and effective to obtain the expertise necessary to have all the journal entries made and to prepare complete financial statements including the financial statement footnotes prior to the start of the audit.

If management believes that its controls surrounding financial reporting are adequate to detect, prevent and correct any misstatements in the financial statements drafted by the independent auditors, management may feel it is acceptable to obtain assistance from the auditors with known adjustments and preparation of the financial statements and financial statement footnotes. However, this decision by management should be communicated to the Board of Trustees.