MUNICIPAL FINANCE CORPORATION

MANAGEMENT LETTER
FOR THE YEAR ENDED
JUNE 30, 2016

ORTIZ, RIVERA, RIVERA & CO.

CERTIFIED PUBLIC ACCOUNTANTS • VALUE ADDED SERVICES

Suite 152, PO Box 70250, San Juan, P.R. 00936-7250 • Phone (787) 756-8524, Fax (787) 274-0562

ORR & Co.
Ortiz, Rivera, Rivera & Co.
Certified Public Accountants and Business Advisors

CPA Orlando Luis Ortiz Cabrera
CPA Marco Antonio Rivera Zúñiga
CPA Zoraida Cruz Claudio

Members:
American Institute of Certified Public Accountants (AICPA)
AICPA's Private Companies Practice Section (PCPS)
Puerto Rico Board of Certified Public Accountants

December 20, 2017

To the Management and
Board of Directors
Municipal Finance Corporation
San Juan, Puerto Rico

Dear Sirs:

In planning and performing our audit of the financial statements of the governmental activities and the aggregate remaining fund information of Municipal Finance Corporation ("the Corporation") as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

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 a combination of deficiencies in internal control, 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control to be significant deficiencies:

A. GENERAL LEDGER AND CASH

Currently the financial transactions of the Corporation are not recorded through the books or into any other type of accounting software. Rather, all activity is recorded through spreadsheet and never otherwise entered into the books. This spreadsheet is updated each month; however, no reconciliation of the cash balances is performed.

Recommendation

We suggest that the Corporation establish a better accounting system that captures the Corporation's activity. We also suggest that formal bank reconciliation be prepared for each month and that these reconciliations be filed so that they can later be accessed if needed.

B. QUARTELY FINANCIAL REPORTS

The Corporation and the Treasury Department did not prepare the required quarterly financial reports to the Municipalities as required by Law.

Based on Law 19, as amendment, Article 11 (c) (3), the Corporation and the Treasury Department, should submit to the Municipalities quarterly financial reports of the Municipal Sales and Use Tax Collections.

Recommendation

We recommend management to maintain adequate accounting records that allow for the timely completion of quarterly financial reports.

C. ANNUAL AUDIT

The Corporation did not comply with the required due date for the annual audit. Based on Law 19, Article 2 (j), as amended, starting with the fiscal year ended June 30, 2015 and for the next fiscal years, the financial statements of the Corporation will be audited by Certified Public Accounts no later than October 31, after fiscal year ended.

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Recommendation

We recommend management to maintain adequate accounting records that allow for the timely completion of the financial statements and performance of the annual audit.

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

We believe that the implementation of these recommendations will provide the Corporation with a stronger system of internal control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

Cordially,

Ortiz, Rivera, Rivera & Co.

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