March 2, 2021

Mrs. Blanca P. Fernández González
Executive Director,
Puerto Rico Housing Finance Authority
PO Box 71361,
San Juan, PR 00936-8461

Dear Mrs. Fernández González,

In planning and performing our audit of the basic financial statements of Puerto Rico Housing Finance Authority ("the Authority") as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered Authority'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 opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 a material weakness.

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 consider the following deficiencies in the Authority's internal control to be a material weakness:

Internal Control Over Financial Reporting

A fundamental element of a sound system of internal controls is an effective financial closing process which ensures that account balances are properly and timely recorded. Such a process is essential in enabling the Authority to prepare timely and accurate financial statements.

During our audit procedures, we noted the following:

- Management did not perform an analysis to reconcile the HOME program general ledger account balances against the program records which resulted in several adjustments to adjust the program, revenue, expense account receivable and payable accounts. Also, during our audit procedures we noted that there were unrecorded liabilities as of June 30, 2018 and the deferred income analysis was performed during the audit.
- Untimely collectability review of a loan to a related party that eventually resulted in an adjustment establishing an allowance for loan losses of approximately $14 million.
- The Authority's allowances for loan losses accounts were not adjusted timely to in accordance with the analysis made by management and in one instance the adjustment was incorrectly posted in the general ledger.
- The balances of the due to/from accounts between the proprietary and governmental funds did not agree as of June 30, 2018.
- An analysis was not performed to ensure that interest income was not accrued on impaired cash accounts that resulted in various adjustments during the audit.
- The accrued vacation and sick leave account balances were not adjusted timely in accordance with the subsidiary ledger.
- Untimely recognized adjustments to certain transactions, such as: salaries and medical claims allocation by fund, administrative revenue and due from federal government under the HUD programs, reserve for the mortgage loan insurance portfolio, and deferred income and premium revenue; among several other correcting adjusting entries identified.

The Authority does not have proper internal controls to ensure a timely and complete financial closing process. As a result, the Authority's accounting records required multiple correcting adjustments in order to present fairly its financial statements.

The Authority should implement internal controls to routinely and timely review and validate the completeness and accuracy over its year end closing procedures.

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

Very truly yours,

LHD América, LLC

Victor A. Monserrate, CPA
Director