



# Office of the Public Auditor

Commonwealth of the Northern Mariana Islands

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July 2, 2018

Interagency Audit Coordinating Advisory Group:  
The Honorable Arnold I. Palacios, Senate President  
The Honorable Rafael S. Demapan, Speaker of the House of Representatives  
The Honorable Edmund S. Villagomez, Minority Leader for the House of Representatives  
Ms. Larrisa C. Larson, Secretary of Finance  
Ms. Virginia C. Villagomez, Special Assistant for the Office of Management and Budget  
Saipan, MP 96950

Dear Interagency Audit Coordinating Advisory Group:

## Report on CNMI Agencies' Implementation of Audit Recommendations

Enclosed is a copy of the status report on CNMI agencies' implementation of audit recommendations reported in audit reports issued by the Office of the Public Auditor (OPA) as of June 2018. OPA tracked 20 audit recommendations as of June 2018.

OPA sent follow-up emails and called government agencies with unresolved audit recommendations as of June 2018. Based upon our review, four audit recommendations were resolved. This report incorporates agency responses to our follow-up emails and responses based on requested documents obtained by OPA on or before June 28, 2018.

In accordance with statutory restrictions in the Auditing and Ethics Acts, the names of individuals in the audits are not disclosed in this report. All OPA audit reports can be found on [www.opacnmi.com](http://www.opacnmi.com).

Sincerely,

Michael Pai, CPA  
Public Auditor

Enclosures  
MP/db/gt/jb

Cc: Honorable Ralph DLG. Torres, Governor  
David Blake, OPA  
Geraldine Tenorio, OPA  
Joaquin Borja, OPA  
Ashley Kost, OPA

## Executive Summary

### Report on CNMI Agencies' Implementation of Audit Recommendations,

As of June 2018

Report No. TR-18-01, June 28, 2018

#### Background

The Office of the Public Auditor (OPA) maintains an audit recommendations tracking system to monitor the implementation and resolution of audit recommendations. On a semi-annual basis, OPA issues its *Report on CNMI Agencies' Implementation of Audit Recommendations*, commonly referred to as the Audit Recommendations Tracking System (ARTS) report, which presents the audited agencies' compliance with OPA's recommendations.

The provisions of 1 CMC § 2307 established the Interagency Audit Coordinating Advisory Group (Coordinating Group) consisting of the presiding officer and minority leader of each house of the Legislature, the Secretary of Finance, and the Special Assistant for Management and Budget. According to the law, the Coordinating Group is to review all audit reports of the Public Auditor, and the Public Auditor will discuss the manner in which audit recommendations can be implemented with the assistance of the members of the Coordinating Group. The Coordinating Group shall also recommend to the Governor and to the Legislature any changes in laws or regulations, which it finds necessary or desirable as a result of its work with the Public Auditor.

Since 2000, OPA has not received any request for consultation from the Coordinating Group. However, OPA has been issuing follow-up letters, email messages, and/or contacting agencies with outstanding recommendations to request for information on corrective actions taken to implement OPA's audit recommendations. When requested, OPA staff meets with agency officials to discuss and clarify actions required to address OPA's audit recommendations. This report incorporates agency responses to OPA's follow-up emails or documents obtained by OPA on or before June 28, 2018. In accordance with statutory restrictions in the Auditing and Ethics Acts, the names of individuals are not disclosed in OPA's ARTS report.

#### Classification of OPA Audit Recommendations

OPA recommendations are classified as either *resolved* or *unresolved*. A *resolved* recommendation is one in which OPA is satisfied that the client has taken corrective action to meet the intent of the recommendation or OPA has withdrawn from it. An *unresolved* recommendation is one in which the client cannot take immediate action or we have not been informed by the concerned agency or department of any action taken to address the recommendation.

#### Status of OPA Audit Recommendations

OPA tracked a total of 20 audit recommendations as of June 2018. Of the 20 audit recommendations, 4 were resolved.

The table below presents the status of OPA's audit recommendations.

Agency	Report No.	Unresolved as of Dec. 2018	Resolved	Unresolved as of June 2018
Commonwealth Utilities Corporation	AR-17-02	1	0	1
Commonwealth Healthcare Corporation	AR-17-01	11	3	8
Department of Lands and Natural Resources	AR-15-03	4	0	4
Department of Public Safety	AR-15-01	2	1	1
Department of Finance, Division of Customs	AR-14-01	2	0	2
<b>Total</b>		<b>20</b>	<b>4</b>	<b>16</b>



**Commonwealth Utilities Corporation (CUC)**

Audit of the Commonwealth Utilities Corporation's Organizational Structure Report No. AR-17-02, Issued April 27, 2017 (Link to Audit Report: <a href="http://opaenmi.com/resources/files/reports/audit/AR-17-02%20CUC%20Organizational%20Structure.pdf">http://opaenmi.com/resources/files/reports/audit/AR-17-02%20CUC%20Organizational%20Structure.pdf</a> )		1 unresolved; 0 resolved.	
Findings	Recommendations	Current Status	Agency Response Update
<p>1. The Commonwealth Utilities Corporation (CUC) did not achieve its purpose to operate as an independent public agency with the legal and political independence to perform as a non-subsidized, autonomous corporation due to interferences by the legislature, various governors, and the boards of directors throughout the history of CUC.</p>	<p>CUC should collaborate with the Administration and the legislature to promptly and diligently consider a revised corporate form for CUC.</p> <p>Three proven models that could be considered to replace the current political structure of CUC are Cooperatives, Municipal Corporation, and Privatization.</p>	<p>Unresolved</p> <p><b>Note:</b> See comments below.</p>	<p>On May 9, 2018, CUC has informed OPA that they are diligently reviewing and discussing the alternatives to CUC's organizational structure and the feasibility of operating within the CNMI (See Appendix A for CUC's detailed response).</p> <p><b>OPA's response:</b> Although CUC has expressed its commitment to considering the alternatives to its organizational structure, the recommendation will remain open as it involves collaboration with the Administration and the Legislature.</p> <p>The unresolved recommendation will be addressed to both the Administration and the Legislature for future follow-up.</p>

*\* The audit report gained some traction with the Legislature's introduction of Senate Bill 20-39 on May 8, 2017. The bill aims to "replace the Commonwealth Utilities Corporation with two independent autonomous public corporations to separately manage and control the power service and water service systems, and to create only one elected consolidated Commonwealth Utilities Board for the two public corporations, and for other purposes."*

**Commonwealth Healthcare Corporation (CHCC)**

Audit of the Commonwealth Healthcare Corporation's Patient Revenue Cycle Management Report No. AR-17-01, Issued March 16, 2017  
 (Link to Audit Report: <http://opaenmi.com/resources/files/reports/audit/AR-17-01%20CHCC%20Patient%20Revenue%20Cycle.pdf>)

8 unresolved; 3 resolved.

Findings		Recommendations	Current Status	Agency Response Update
1. Failure to manage patient accounts receivable.	1. Develop and implement policies and procedures to promptly verify patient's insurance coverage and eligibility; discuss payment requirements, payment reminders and options with patients at the time of registration.		Resolved	CHCC provided a copy of their approved Policy 7036 on 01/22/18.  <b>OPA's response:</b> OPA considers this recommendation resolved.
	2. Collect upfront payments from all patients regardless of coverage, unless it is certain that the insurance or guarantor will pay the bill in full. If patients are unable to make payment, CHCC should discuss payment options with the patients and ensure that follow-up procedures are performed.		Unresolved	<b>CHCC 11/22/17 response:</b> Upfront payments are being done at the time of Registration and/or Checkout depending on the patient's medical condition. Payment options, such as a payment plan, is being discussed when patients are unable to make a payment.  <b>OPA's response:</b> OPA reviewed the requested documents provided by CHCC and was unable to clearly determine whether payments were being collected upfront. OPA requested additional information on 5/17/18.  OPA considers this recommendation unresolved until we can make a detailed evaluation for the December 2018 ARTS report.
	3. Where applicable, require that doctors and nurses prepare the information necessary to estimate a bill at the time a patient is discharged.		Resolved	CHCC provided an updated copy of their approved Policy 9503.  <b>OPA response:</b> OPA considers this recommendation resolved.
	4. Develop a plan of action that is effective and timely, and addresses the current backlog related to coding, billing, collection, and posting payments.		Unresolved	<b>CHCC 11/22/17 response:</b> The backlog has been minimized significantly. For all inpatient insured claims, we are currently caught up; whereas, outpatient insured claims are 5-6 months behind. At the time of this performance review, CHCC had no Director of Revenue Cycle to lead the Business Office and provide guidance. Currently, as can be seen, the backlog has been reduced tremendously. At the time of this review, outpatient and

			<p>inpatient claims were both over 12 months behind. Thus, action plans and actions have led to positive results.</p> <p><b>OPA's response:</b> OPA reviewed the requested documents provided by CHCC and was unable to clearly confirm CHCC's response. OPA requested additional information on 5/17/18.</p> <p>OPA considers this recommendation unresolved until we can make a detailed evaluation for the December 2018 ARTS report.</p>
	<p>5. Seek technical assistance that would result in the assessment of the current IT structure and the acquisition of a comprehensive accounting and billing system.</p>	<p>Unresolved</p>	<p><b>CHCC 11/22/17 response:</b> Medisphere is currently working with CHCC to assess any downfalls with the current IT structure. The acquisition of a comprehensive accounting and billing system requires significant funding. Lack of adequate funding to acquire new infrastructure is not an objective finding, especially when dealing with the reality of tens of millions of dollars in uncompensated care losses and CHCC's financial situation as a result.</p> <p><b>OPA's response:</b> According to the contract, Medisphere's services involve implementing new and improving existing system functions and capabilities of the RPMS and EHR with the goal of optimizing the revenue cycle. OPA requested additional information related to CHCC's financial information system capabilities.</p> <p>OPA considers this recommendation unresolved until we can make a detailed evaluation for the December 2018 ARTS report.</p>
	<p>6. Develop and implement policies and procedures effectively to address claim denials and rejections.</p>	<p>Resolved</p>	<p>OPA considers this recommendation unresolved until we can make a detailed evaluation for the December 2018 ARTS report.</p> <p>CHCC provided a copy of their approved Policy 7037 on 01/22/18.</p> <p><b>OPA's response:</b> OPA considers this recommendation resolved.</p>



	<p>7. Provide staff with relevant documentation and training; and develop and implement policies and procedures effectively to review third party reimbursements.</p>	<p>Unresolved</p>	<p><b>CHCC 11/22/17 response:</b> Training will be provided once the appropriate trainer/company is identified. Unfortunately, we were unable to find a Coder Educator, however, we are looking into available training sessions for this area. Publications for 2017 involving CPT codes, HCPCS Codes, and ICD 10 codes have been purchased providing staff with all current codes for billing/coding purposes. 2018 publications will also be ordered when available.</p> <p><b>OPA's response:</b> OPA requested additional information on 5/17/18. OPA considers this recommendation unresolved until we can make a detailed evaluation for the December 2018 ARTS report.</p>
	<p>8. Properly adopt and publish a listing of all procedures and related fees in one complete schedule.</p>	<p>Unresolved</p>	<p><b>CHCC 11/22/17 response:</b> We will be contracting with a chargemaster company who is experienced and successful in reviewing Fee Schedules to ensure all procedures are included and listed. This updated Charge Description Master will then be published according to the Administrative Procedures Act, as required, but will also be published on CHCC's website. The current chargemaster (all fees) was duly adopted and is published in the CNMI Administrative Code, as required. CHCC does not agree that adoption and publication of fees should be a finding when CHCC's fee schedule is adopted and published as required by law.</p> <p><b>OPA's response:</b> OPA requested additional information on 5/17/18. OPA considers this recommendation unresolved until we can make a detailed evaluation for the December 2018 ARTS report.</p>
	<p>9. Update contracts with insurance companies.</p>	<p>Unresolved</p>	<p><b>CHCC 11/22/17 response:</b> Contracts are currently being reviewed and updated and negotiations with Insurance Plans are taking place. Insurance Plans are not required to execute Payer Contracts with CHCC. This should not be a finding as there is no criteria mandating or requiring Insurance Plans to execute contracts with CHCC.</p>

<p><b>2.</b> Noncompliance with procurement regulations in CHCC's use of an independent billing and collection firm and inadequate reconciliation of forwarded accounts.</p>	<p>10. Reconcile all billings created and payments received from the contractor. Any discrepancy should be resolved and the overall effect should be analyzed and documented.</p>	<p>Unresolved</p>	<p><b>OPA's response:</b> OPA considers this recommendation unresolved until negotiations are finalized and contracts have been updated.</p> <p><b>CHCC 11/22/17 response:</b> Reconciliation reports have been provided to the insurers. They have responded to the list and we are reviewing and addressing any discrepancies. Moreover, multiple requests have been sent to GMCA for a reconciliation of payments received. This effort continues today. Another follow-up was sent November 21, 2017. CHCC will continue to communicate with the contractor in order to reconcile.</p> <p><b>OPA's response:</b> OPA obtained copies of correspondences with the contractor and confirmed CHCC's efforts.</p> <p>OPA considers this recommendation unresolved and will continue to observe CHCC's progress until reconciliations are completed.</p>
<p>11. Comply with CHCC's Procurement Regulations when seeking the services of an outside billing and collection agency.</p>	<p>Unresolved</p>	<p>Unresolved</p>	<p><b>CHCC 11/22/17 response:</b> CHCC is complying with its procurement regulations. CHCC has not contracted the services of an outside collections agency dating back to 2015. Upon pursuit of a new collections contractor CHCC will perform necessary solicitation/bidding procedures as required by our Procurement regulations which were adopted in September 2015 one month before this report was initiated.</p> <p><b>OPA's response:</b> OPA requested additional information on 5/17/18. OPA considers this recommendation unresolved until we can make a detailed evaluation for the December 2018 ARTS report.</p>

**Department of Lands and Natural Resources, Outer Cove Marina (DLNR)**

Audit of the Outer Cove Marina for Calendar Year 2014

Report No. AR-15-03, Issued October 5, 2015

(Link to Audit Report: <http://www.opaenmi.com/resources/files/reports/audit/AR-15-03%20DLNR-OCM.pdf>)

4 unresolved; 0 resolved.

Findings		Recommendations	Current Status	Agency Response Update
<p>1. DLNR did not properly assess and collect all required fees and fines.</p>	<p>DLNR should enforce the Outer Cove Marina Regulations (Regulations) by conducting the following:</p> <ul style="list-style-type: none"> <li>(a) Apply the appropriate berthing slip fees when billing its tenants. Management should also consistently review and monitor the assessment, billing, and collection of berthing slip fees.</li> <li>(b) Assess and collect security deposits from all its tenants. DLNR should work with the Department of Finance to ensure that security deposits are accounted for separately and not commingled with berthing fee revenues.</li> <li>(c) Assess and collect the proper delinquency fees. Management should consistently review and monitor the assessment, billing, and collection of penalty fees.</li> <li>(d) Revisit the Regulation requirement pertaining to passenger departure fees and adopt a final decision. If the intention of DLNR is to suspend or not collect passenger departure fees, DLNR should amend the Regulations to reflect this change.</li> </ul>	<p>Unresolved</p>	<p>OPA recognizes that the closure of OCM has rendered this recommendation inapplicable at this time and will remain unresolved until circumstances at OCM enables OPA to make a detailed evaluation.</p> <p><i>See OPA response to Recommendation 5.</i></p>	
<p>2. Lack of enforcement activity made it easy for illegally berthed vessels to park.</p>	<p>DLNR should seek the assistance of the OAG for legal advice and take appropriate action that will ultimately lead to impoundment or removal of vessels if a lease is not approved and the appropriate payments have not been made.</p>	<p>Unresolved</p>	<p>OPA recognizes that the closure of OCM has rendered this recommendation inapplicable at this time and will remain unresolved until circumstances at OCM enables OPA to make a detailed evaluation.</p> <p><i>See OPA response to Recommendation 5.</i></p>	



<p>4. OCM lacks adequate security, basic amenities and signage.</p>	<p>DLNR must enforce its own Regulations, standard marine regulations and conduct the operations of OCM in a safe, professional, and business-like manner, more specifically:</p> <ul style="list-style-type: none"> <li>(a) The OCM should be fenced off from the general area with access gates for passengers and operators. DLNR needs a presence at the dock during all hours of operation to ensure and enforce compliance with the Regulations;</li> <li>(b) DLNR should find the necessary funds to provide, at the very least, basic amenities for users of the marina; and</li> <li>(c) Find necessary funds to maintain standard operational features to protect the passengers and vessel operators.</li> </ul>	<p>Unresolved</p>	<p>OPA recognizes that the closure of OCM has rendered this recommendation inapplicable at this time and will remain unresolved until circumstances at OCM enables OPA to make a detailed evaluation.</p> <p><i>See OPA response to Recommendation 5.</i></p>
<p>5. OCM's overall structure is unsafe.</p>	<p>Prior to making formal audit recommendations, generally accepted government auditing standards stresses that a cost/benefit analysis be conducted. OPA is not, at this time, equipped to conduct engineering studies and calculations to determine the needed renovations to provide an adequate level of safety. Prior to any expenditure of funds an engineering study should be conducted to determine needed repairs and the costs associated with such repairs. Only at that time can management make informed decisions.</p> <p>However, DLNR needs to immediately affect policies and controls, which will enhance the operational safety of the dock. This will require day-to-day oversight of the dock itself. Further, any cost/benefit analysis should also consider that the OCM is the only facility that currently supports the majority of Saipan's marine tourism activities. If the facility closes or fails, the cost in related tourism revenues will be substantial.</p> <p>Essentially, DLNR is faced with no easy solutions. Based upon the engineering study either (1) repairs must be performed, (2) the OCM closed, (3) a new facility is built, or (4) the OCM is transferred to a public</p>	<p>Unresolved</p>	<p>On April 23, 2018, DLNR informed OPA that OCM remains closed until the facility has been improved. Due to its limited financial resources, DLNR had instructed personnel from its other divisions to monitor operations and to drive by OCM on a daily basis to show their presence. DLNR further stated that boaters have been utilizing the Smiling Cove Marina transient dock for loading and unloading passengers which also enables DFW staff to monitor traffic flow and safety in the area.</p> <p>DLNR stated that they received clearance from the Department of Public Works (DPW) to begin advertising the RFP that would require a developer to design, construct, and operate a new and safer facility. DPW will oversee the review of proposals with a review panel of members from both DLNR and DPW personnel.</p> <p><b>OPA's response:</b> DLNR closed OCM due to its unsafe condition, but continues to allow vessels to berth at no charge subject to conditions under DLNR's <i>Waiver, Release of Liability, and Indemnification Agreement</i> which also prohibits the loading and off-loading of passengers or equipment at OCM.</p>

	<p>or private entity, which has the expertise and capital to effectively operate the marina.</p>	<p>On May 24, 2018, OPA conducted a site visit to verify DLNR's efforts and noted that 1) not all vessels berthed at OCM appeared to be listed as having existing waivers, 2) two separate commercial vessels were seen off-loading passengers, 3) it appears that the collapsed gangway is being used during low tide, and 4) OCM still lacked necessary signage to keep the public on notice of its condemnation and fencing to restrict access.</p> <p>On May 30, 2018, OPA requested DLNR to provide a plan of action to address the aforementioned inadequacies before June 28, 2018, but a response was not provided.</p> <p>Based on our observation, OPA strongly advises DLNR to take all necessary measures to ensure the safety of occupants and visitors at OCM; and mitigate the potential liabilities to the CNMI that are associated with the continued use, but unsafe conditions of the OCM.</p>
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**Department of Public Safety (DPS)**

Audit of the Department of Public Safety, Evidence Preservation, Accountability and Control Section

Report No. AR-15-01, Issued March 11, 2015

(Link to Audit Report: <http://opaenmi.com/resources/files/reports/audit/AU-DPS-1501.pdf>)

*1 unresolved; 1 resolved.*

Findings		Recommendations	Current Status	Agency Response Update
<p><b>1.</b> The physical security of the facility is inadequate.</p>	<p>DPS management needs to ensure that the ongoing improvements to the Evidence Facility continue and that funding sources are sufficient and dedicated to achieve this goal.</p>	<p>Unresolved</p>	<p>On May 9, 2018, DPS stated that evidence is still being stored at the temporary evidence facility. DPS has not begun renovations to the original evidence facility until funding can be obtained from FEMA under the Public Assistance Grant. DPS further stated that FEMA has begun the renovation process for one of its other facilities and once this project is completed it will begin renovations at the original evidence facility.</p> <p><b>OPA's response:</b> DPS made substantial improvements to the original facility prior to the damages caused by Typhoon Soudelor. OPA recognizes that renovations to the original evidence facility is dependent on the availability of funds for which DPS has no direct influence.</p> <p>OPA considers this recommendation unresolved until renovations have been made and evidence is moved back to the original evidence facility.</p>	
<p><b>6.</b> Firearms seized and weapons submitted for safekeeping are inadequately documented, and in some cases records are non-existent.</p>	<p>The Evidence Custodian must continuously update the inventory as conducted by OPA. Firearms not seized as evidence should be stored in the DPS Armory.</p>	<p>Resolved</p>	<p>The Evidence Custodian continues to maintain and update its inventory listing at the temporary evidence facility.</p> <p><b>OPA's response:</b> OPA conducted a site visit on May 21, 2018 and confirmed that non-evidence firearms are separately maintained from other items within the temporary evidence facility.</p> <p>OPA has determined this recommendation to be resolved.</p>	




**Department of Finance, Division of Customs (DOF, Customs)**

Audit of the Division of Customs Service on Assessment and Collection of Excise Taxes for Calendar Year 2013  
 Report No. AR-14-01, Issued September 29, 2014  
 (Link to Audit Report: [http://opaenmi.com/resources/files/reports/audit/Customs\\_AR1401.pdf](http://opaenmi.com/resources/files/reports/audit/Customs_AR1401.pdf))

2 unresolved; 0 resolved.


Findings		Recommendations	Current Status	Agency Response Update
<p><b>A3.</b> Failure to hold cargo of delinquent taxpayers.</p>	<p>DOF, Division of Customs Service should strictly adhere to its policy of holding future cargo until outstanding balances are satisfied. If cargo is released without the full payment of outstanding taxes or without the approval of a payment plan, adequate documentation and approval by the Director should be maintained in the files.</p> <p>Further, OPA’s review of existing Laws indicated no formal procedures or time tables were given to the Division to ultimately resale these held items in order to collect past due amounts. OPA recommends that the Division seek a legal opinion on this matter to determine if a change in the law is required or if such; can be incorporated through revised regulations.</p>	<p>Unresolved</p>	<p>On April 30, 2018, the Division informed OPA that it has taken the necessary steps to adhere to the holding of cargoes for businesses with delinquent outstanding. Cargoes arriving for taxpayers with Installment Payment Plans must be paid prior to release of cargoes. Only the Director or his designee shall authorize the release of cargoes for businesses with delinquent outstanding for reasons such as off island checks, pending status on accounts &amp; disputes.</p> <p><b>OPA’s response:</b> On May 10, 2018, OPA reviewed the Declaration of Entries of several importers with existing outstanding balances and found that cargoes are still being released without adequate documentation of the Director’s approval. OPA considers this recommendation unresolved.</p>	
<p><b>B2.</b> Failure to collect on overdue balances.</p>	<p>OPA recommends that written procedures be developed to immediately pursue importers with outstanding receivable balances that are greater than 30 days past due. OPA also recommends that receivables greater than 90 days be forwarded to the Division of Revenue and Taxation, Collection Branch in accordance with §70-10.1-150 of the Customs Service Regulations.</p>	<p>Unresolved</p>	<p>On April 30, 2018, the Division informed OPA that it has created a billing and collection unit within the compliance section which will allow customs to bill delinquent taxpayers. The billing module was added into the CNMI Tax system on April 01, 2018. Billings will be either hand delivered or mailed using a selective process in reference to an approved billing criterion. The Standard Operating Procedure (SOP) for the billing and collection has been created and is pending approval.</p> <p><b>OPA’s response:</b> OPA considers this portion of the recommendation unresolved until the SOPs are approved.</p>	

## APPENDIX A: CUC Detailed Response



## Commonwealth Utilities Corporation

### Office of the Executive Director



May 7, 2018

**VIA EMAIL to:** [mpai@opacnmi.com](mailto:mpai@opacnmi.com)

Michael Pai, CPA Ref. No. 05-18-007  
CNMI Public Auditor  
Office of the Public Auditor  
Capitol Hill  
Saipan, MP 96950

**RE: Response to Report on CNMI Agencies' Implementation of Audit Recommendation**

Dear Mr. Pai:

The senior team of the Commonwealth Utilities Corporation (CUC) is presently reviewing and having discussions about the issues discussed in the Audit Report and in particular the three organizational structures suggested. As you realize, this is a complicated subject and we at CUC understand that we must meticulously review and assess the process and we are trying to understand the alternatives and best concept for the Commonwealth and its consumers.

With regard to the recommended types of utility structures described by OPA, CUC understands the definition of these structures to be:

**Cooperatives:** Essentially, it would create a business structure that operates independently of governmental influence with complete independence from Executive actions, the CPUC and from legislative action. The report discusses the opportunity to return dividends/savings to the customers who would be the owners, similar to the Kuai Electric Cooperative.

**Municipal Corporation:** As defined in the report, this type of structure is similar to CUC, but allows for the Board to be elected by the public who hires the Executive Director. Similar to Guam Water and Power Authority.

Louisville Water Company, Louisville, Kentucky, operates a municipal corporation that treats the local property owner as an investor. Essentially, the water company is owned by every property owner within the City and they share the opportunity to receive dividends annually based on the performance of the utility. They have the protection from influence and get the benefit of self-determination. The six-member Board is selected by the Mayor, who is an ex-officio member (non-voting). The members are bankers, CEO's of private business, university presidents, a retired firefighter, but no former political persons are considered.

The focus of these first two organizational styles are long-term and their rate structures are set to be fair, competitive, and necessary to meet their obligation as a supplier of choice (monopoly

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status) operating with progressive business practices. These first two also have stronger control over rates.

CUC will be studying these structures for the purpose of providing comment and whether or not they would be feasible for the utility operation in the CNMI.

**Privatization:** Another concept which will be reviewed is privatization which would result in the total sale and transfer of ownership of all CUC assets to a third party. The report does warn that this is the largest gamble of the three and would be very challenging to assure transparency. This alternative has no control over rates.

CUC will reach out to you as we deliberate on the merits of our current organizational structure. Please don't hesitate to reach out and inquire on the status of our deliberation. And please keep us informed well in advance of any meetings that we should anticipate being a part of regarding this subject.

Sincerely,



GARY P. CAMACHO  
Executive Director

cc: Deputy Executive Director