



# DR. BUU NYGREN *PRESIDENT*

## RICHELLE MONTOYA *VICE PRESIDENT*

The Navajo Nation | Yideeskáądi Nitsáhákees


### Memorandum

Date: October 13, 2023

To: Honorable Dr. Buu Nygren, President  
Office of the President/Vice President

Honorable Crystalyne Curley, Speaker  
Navajo Nation Council

Honorable JoAnn Jayne, Chief Justice  
Judicial Branch

From: Sean McCabe, Controller  
Office of the Controller 

Subject: Controller's Report – Fall Session October 2023

The Navajo Nation Office of the Controller is pleased to present to you the following information related to the 4th Quarter of Fiscal Year 2023.

#### I. Controller's Highlights for the 4<sup>th</sup> Quarter for FY2023:

During the 4th Quarter of the Fiscal Year 2023, the following events occurred:

- The Fiscal Year 2024 budget was passed and signed by the Navajo Nation President
  - We were pleased to work in concert with the Executive, Legislative and Judicial branches to pass the fiscal year 2024 comprehensive budget. A process that began in April of 2023 with the Office of the Controller's revenue projections ended in September of 2023 with the Navajo Nation Council passing the budget and President Nygren signing it into law with one line-item veto. Special thanks to the Office of Management and Budget and Chair Shaandiin Parrish and the honorable members of the Budget and Finance Committee for bringing the whole process together and to completion.

- The Fiscal Year 2022 financial audit was completed and accepted
  - The Navajo Nation Office of the Controller was able to work with KPMG to complete the Fiscal Year 2022 audit report. The process was two-fold. The first report was submitted and approved in August of 2022, and this was the financial statement audit report which gave the opinions on the financial statements. The second report was the Single Audit report for the Navajo Nation which reports the audit results of the Nation's compliance and internal controls over compliance of Federal Programs. The Navajo Nation Office of the Controller elected to delay the issuance of the Single Audit report so it could assess preliminary findings in the report which reported questioned costs in the hundreds of millions of dollars. The effort paid off as we were able to reduce the questioned costs from hundreds of millions to a few thousand dollars. While still findings we were able to reduce the severity of the impact by working to provide audit documentation required by the auditors. We would like to thank the Office of Management and Budget and Chair Shaandiin Parrish and members of the Budget and Finance Committee for working with us to get the audit completed and issued.
  
- Completed RFQ for New Governmental Financial System
  - In a coordinated effort to improve the Navajo Nation's efficiency in financial operations, the Office of Controller lead an effort to issue a Request for Qualifications (RFQ) from entities to provide a new Enterprise Resource Planning (ERP) system solution. The current system was implemented in 2000 and the Nation has outgrown its current capabilities. This coupled with cumbersome internal policies and procedures has resulted in notoriously slow and inefficient results from processing revenues to issuing payroll and vendor checks. We are also working on proposing amendments to policies and procedures parallel to the implementation of a new ERP system to lay the foundation for a new, modern, efficient system that promotes transparency and demand accountability. We received 10 responses to our RFQ, and we look forward to starting the process to select a vendor and begin implementation. We hope to have the entire project completed by this very time next year. We want to thank Chair Shaandiin Parrish and the members of the Budget and Finance Committee as well as the Division of Personnel Management, Department of Justice, Office of Management and Budget and the Office of the President and Vice President for their collaboration and support in this process.

- Fiscal Year 2023 closing is under way
  - We are happy to announce that we are working to close out the fiscal year 2023 and hope to have the process completed in the coming weeks.
- Simplified ARPA related Subrecipient Agreement (SRA) process
  - In a coordinated effort we were able to complete a simplified process in order to stop the unnecessary delay of the processing of Chapter ARPA related Subrecipient agreements. We have come up with a Universal object code so that all Chapter ARPA related Subrecipient Agreements utilize one object code when submitting agreement paperwork. This will result in a simplified coding process for Chapter SRAs and will provide clarity on the audit universe of subrecipient disbursements to reduce annual audit risk and finally it will assist in required reporting to the federal ARPA reporting portal. We are also working on a simplified reporting document for Chapters to report quarterly actual ARPA expenditures against budgets in approved expenditure plans. This reporting document will mirror the reporting requirements required by the ARPA reporting portal so that all ARPA related SRAs have a uniform reporting tool to report to the Navajo Nation in fulfilling our federal subrecipient monitoring responsibilities. We want to thank the Office of Management and Budget, the FRF Office and the Department of Justice for collaborating on this.

A'he'hee Shinataanii for the opportunity to provide this information. Other information and exhibits for our fiscal quarter are presented below:

### **CARES Act Fund**

**Exhibit “A-1”** lists the financial status of each business unit that was established to account for the CARES Act Fund expenditures per approved Navajo Nation Council resolutions.

### **ARPA Fund**

In accordance with the Navajo Nation Council Resolution CJY-41-21, 43 business units were established to account for the ARPA expenditures. **Exhibit “A-2”** lists the budget status of each business unit.

### **Sihasin Fund August 2023**

The current unaudited un-appropriated balance in the Sihasin Fund is \$153,776,618 as of August 31, 2023.

**II. Controller's Office Financial Information for the 4<sup>th</sup> Quarter of FY2023:**

The Office of the Controller is an essential program and has remained open and processed payroll, accounts payable and reporting on financial matters.

**1) The Payroll section** has run 3,248 checks and processed 24,091 direct deposits with a gross wage amount of \$32,474,451 paid out in the 4<sup>th</sup> Quarter of Fiscal Year 2023. Payroll continues to move away from costly payroll checks and move to direct deposits.

	<u>Direct Deposits</u>	<u>Checks</u>	<u>Gross Payments</u>
July 2023	7,961	1,180	\$10,591,749
Aug 2023	8,096	1,309	\$11,239,061
Sept 2023	8,034	759	\$10,643,641
Total:	24,091	3,248	\$32,474,451

**2) The Accounts Payable section** has run 17,472 checks and ACH payments, with a net total dollar amount of \$149,797,088 paid out in the 4<sup>th</sup> Quarter of Fiscal Year 2023.

	<u>Number of Checks &amp; ACH payments</u>	<u>Amount</u>
July 2023	5,592	\$ 33,354,478
Aug 2023	5,605	\$ 56,586,218
Sept 2023	6,275	\$ 59,856,392
Total:	17,472	\$149,797,088

**3) The General Fund Financial data is as follows:**

**Oil and Gas Revenue**

	<u>*Average Price of Oil Per Barrel</u>	<u>Monthly NN Revenue</u>
July 2023	\$76.03	\$3,370,261
Aug 2023	\$81.32	\$2,734,935
Sept 2023	\$89.43	\$5,570,093
	\$82.26	\$11,675,289

\*Source:www.onrr.gov

The unaudited gross General Fund Recurring Revenues (see **Exhibit “B”**) as of September 30, 2023, was \$287,105,618 and set asides totaled \$63,667,750. The Net Revenue for the General Fund was \$223,437,868, which is 140.60% of the projection. The average price of barrel of oil for the quarter was \$82.26, the lowest month being July 2023 with a price per barrel of \$76.03. This schedule shows the monthly revenue deposited into the Navajo Nation General Fund Revenues for oil. The amount of \$11,675,289 has been received in oil and gas revenues for the Fourth Quarter of the Fiscal Year.

The other significant revenue source is the Tax Revenues for the General Fund. The following is a schedule compiling the collections by month of the Tax Revenues. Total collections for the Fourth Quarter were \$16,517,721.

**Tax  
Revenue**

	<u>Monthly Revenue</u>
July 2023	\$ 1,447,845
Aug 2023	\$ 9,875,906
Sept 2023	<u>\$ 5,193,970</u>
	\$ 16,517,721

The total unaudited expenditures by branch are shown on **Exhibit “C.”**

- The Legislative Branch expended \$15,346,417; encumbered \$1,626,024 with a remaining budget of \$6,625,331.
- The Executive Branch expended \$142,042,497; encumbered \$15,428,227 with a remaining budget of \$51,644,816.
- The Judicial Branch expended \$12,960,024; encumbered \$37,295 with a remaining budget of \$6,741,959.
- Fixed Cost expended \$31,332,225; encumbered \$3,809,792 with a remaining budget of \$1,617,730.
- Total General Fund and Fixed Cost expenditures were \$201,681,164 total encumbrances were \$20,901,338 with an overall remaining budget of \$66,629,837.

The updated UUFB as of September 22, 2023, is \$188,160,284 (see **Exhibit “D”**).

**4) Investment Information:**

The investment results in the Fourth Quarter of Fiscal Year 2023 were flat. July was the last great returns reported, marking the end of summer seasonality, and then came the market gloom, which are the August and September months driven by US Government fiscal uncertainty. Therefore, July's returns were

washed by the negative performance in August, leading to a flat return for the Quarter.

The market sentiment is predicated around the premise that the Feds will hold the higher Fed Rate for Longer, as can be observed with the interest rate trajectory. The short-term has maintained a steady bound by 5.25% to 5.5%, with the long-term rates increasing, causing what is known as the Bear Steepener, leading to a yield flattener just below the Fed Rate. This increase in long-term yields with little to no activity in the short-term is the signal for inflationary concerns, and when the yield flattener occurs, we will be in the market sentiment of a "higher for longer." Higher yields lead to higher costs of debt, which will lead to the deacceleration of economic activities as business capital decisions will start to limit expansion plans.

The **Master Trust** has an ending Market Value of **\$4.17 Billion** as of August 31, 2023. The Master Trust had a **-1.64%** MTD return and a 4th QTD return of **0.33%** with an overall FYTD of **14.07%**. The Master Trust portfolio received \$19M in investment income in the 4th Quarter through interest, dividends, and other income and \$5.66M in capital depreciation from unrealized losses and realized gains.

The **Retirement Plan** has an ending Market Value of **\$1.122 Billion** as of August 31, 2023. The Retirement Plan had a **-1.54%** MTD return and a 4th QTD of **-0.10%** with an overall FYTD of **12.75%**. On average, the Retirement portfolio has paid \$4.9M in benefit payments monthly. The 4th QTD received \$5.1 in investment income and capital depreciation of \$6.31M, which included unrealized losses and realized gains.

The **ARPA** portfolio at Northern Trust had an ending Market Value of **\$993 Million** as of August 31, 2023. The ARPA portfolio had a **0.97%** MTD return and a **1.39%** 4th QTD with an overall FYTD of **3.95%**.

The **In-House** portfolio is the investments at Wells Fargo that OOC—Investment, General Accounting, and Cashier manage along with Wells Fargo's Vice President in Fixed Income trading. As of August 31, 2023, the In-House portfolio had a Principal Amount of **\$2.465 Billion**. Over 43.59% of the In-house portfolio is contributed from the Grant Fund, 24.17% from the General Fund, and 14.04% from the ARPA account. The In-House Portfolio has an average Annualized Yield of **443 basis points** and an average of **202-day tenor** investments.

The principal investment component of the In-House portfolio is at **\$2.17 Billion** with an average Annualized Yield of **500 basis**. The Money Market Fund component had a total principal of **\$294 Million** with a 7-day average yield of **526 basis points**.