




MEMORANDUM

Date: October 21, 2024

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 CPA, Controller  10/21/24
Office of the Controller

Subject: Controller's Report – Fall Session October 2024

The Navajo Nation Office of the Controller ("OOC") is pleased to present the following information about the 4th Quarter of Fiscal Year 2024.

I. Controller's Highlights for the 4th Quarter of Fiscal Year 2024

American Rescue Plan Act ("ARPA") and CMY 28-24

The OOC was able to work with the Office of President and Vice-president ("OPVP") and the 25th Navajo Nation Council ("the Council"), as well as several Navajo Nation divisions, to reallocate the remaining ARPA funds. This effort was a collaboration of efforts to reprioritize the remaining ARPA funds received by the Navajo Nation in 2021. Per the United States Treasury guidelines, State, Local, and Tribal governments can obligate ARPA funds to reimburse the Navajo Nation general fund for expenditures made during the pandemic (March 2021 – today) for "government services." After several months of leadership meetings and workshops, OOC calculated and found the expenditures to reimburse the general fund to be approximately \$522 million. This allocation effectively removes ARPA deadlines and restrictions and is available to the Navajo Nation for its priorities.

Since the passage of this historic legislation, the OOC has worked with Executive Divisions, the 25th Navajo Nation Council, and the Budget and Finance Committee too:

- Analyze encumbrances that existed on June 17, 2024, to evaluate the likelihood of the expenditure of those existing encumbrances.
- Monitor the encumbrance and expenditure status of remaining ARPA projects to evaluate the likelihood of completion of allocated funding by the Treasury's December 31, 2026, deadline while preparing for a potential hardship allocation on November 1, 2024.

- We successfully moved close to 400 ARPA-related "K-accounts" to general fund "N-accounts," effectively making funds available to continue the Delegate Region Projects. We have addressed questions about any new processes necessary to expend these funds and communicated that OOC does not require any new processes to push projects forward.
- Work with our oversight and the executive branch to reallocate funds from existing ARPA projects to administrative costs allowed by the Treasury.
- Finalize the allocation plan before the December 31, 2024, Department of Treasury deadline.

Enterprise Resource Planning (ERP) System

OOC has procured the new Enterprise Resource Planning ("ERP") system. Arctic IT will install a Microsoft cloud-based platform to integrate with the Navajo Nation's current Microsoft 365 environment. Modules included in this first-phase installation include accounting, human resource management, budget, and census.

Since our prior quarter report, we are happy to add that the contract is set to enter the 164(b) review process this week. We should be able to start the project's implementation phase immediately after completing the 164(b) review.

This new system will provide, but not be limited to, the following:

1. Streamlining current processes and the elimination of paper-based procedures.
2. Online real-time reporting capability reduces the reliance on departmental personnel to provide information, check funds availability, etc.
3. Online, paperless, and streamlined human resource hiring and processing procedures. Online budget processes and reporting.
4. A complete and comprehensive census database that ties to the overall system.
5. Organizational morale is boosted as we move into a more straightforward, modern financial and human resource processing method.
6. A new chart of account structure that is more manageable and user-friendly for processing and reporting.
7. Improved travel and P-card reporting and accountability capabilities.
8. Enhanced transparency and internal controls to protect and report on Navajo Nation assets, cash inflows, and outflows.
9. Saving Navajo Nation money that is currently spent on employees performing unnecessary tasks and saving money on unnecessary consultants used currently to support the old system. The potential savings are in the millions.

We expect the implementation to take 12-18 months, and this process will start soon.

Leading up to this significant upgrade, the Office of the Controller has worked with the Budget and Finance Committee to revisit the policies and procedures that will support the new system. Discussions have included the Procurement Act and policies and procedures surrounding travel and p-card operations. We have presented a draft reorganization of the Office of the Controller organizational chart to the Budget and Finance Committee as we begin to start the foundation for a more streamlined process.

2023 Audit

For the first time in several years, OOC was able to issue the 2023 financial statement audit on time. The audit was due on June 30, 2024, and the report was issued on July 1, 2024, with a June 30, 2024, report date as June 30 was a Sunday this year. In addition, the Office of the Controller completed the Single Audit this past Friday, and we will be reviewing the compliance findings with the Budget and Finance Committee in the coming days.

2025 Budget

Since our last report, the Navajo Nation has initiated a continuing resolution to keep the government operational. Since this legislation was passed and signed, the Office of the Controller has assisted all three branches of government in interpreting the implications of the continuing resolution and the subsequent line-item veto. We have worked closely with the Budget and Finance Committee to take a more in-depth look at how the Navajo Nation budgets its funds. We have offered alternative ways to produce and analyze the annual budget.

We look forward to working with the three branches of government to complete a comprehensive budget soon.

Sihasin Fund September 2024

The unaudited un-appropriated balance in the Sihasin Fund is \$216,839,832 as of September 30, 2024.

As always, the Office of the Controller would like to thank the Office of the President and Vice President, the 25th Navajo Nation Council, and the Budget and Finance Committee for supporting our initiatives. The Controller would also like to thank the team at OOC for continuing to push toward improvement in our services.

II. Controller's Office Financial Information for the 4th Quarter of FY2024

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

1) Payroll Information

The payroll section ran 4,254 checks and processed 25,018 direct deposits, with a gross wage amount of \$36,661,466 paid out in the 4th Quarter of Fiscal Year 2024. 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 2024	8,292	1,413	\$12,047,389
Aug 2024	8,402	1,923	\$12,839,893
Sept 2024	8,324	918	\$11,774,184
Total:	25,018	4,254	\$36,661,466

2) Accounts Payable Information

The Accounts Payable section ran 19,638 checks and ACH payments, with a net total of \$152,108,245 paid out in the 4th Quarter of Fiscal Year 2024.

	<u>Number of Checks & ACH payments</u>	<u>Amount</u>
July 2024	4,920	\$ 43,624,837
Aug 2024	8,095	\$ 52,939,846
Sept 2024	6,623	\$ 55,543,562
Total:	19,638	\$152,108,245

3) General Fund Information

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 2024	\$80.48	\$3,264,024
Aug 2024	\$75.43	\$2,805,981
Sept 2024	\$69.37	\$4,118,464
	<u>\$75.09</u>	<u>\$10,188,469</u>

*Source:www.onrr.gov

EXHIBIT "A" is attached to show the unaudited gross General Fund Recurring Revenues as of September 30, 2024. A summary of the exhibit is as follows:

- Unaudited Gross Recurring Revenues were \$313,480,423, and set-asides totaled \$69,215,618.
- The Net Revenue for the General Fund was \$244,264,805, which is 151.52% of the projection.
- The average barrel of oil for the Quarter was \$75.09, with September 2024's lowest month's price per barrel of \$69.37.

The other significant revenue source is the General Fund's tax revenues. The following is a schedule for compiling the tax revenues' collections by month. Total collections for the Fourth Quarter were \$10,005,474.

Tax Revenue

	<u>Monthly Revenue</u>
July 2024	\$ 3,191,152
Aug 2024	\$ 3,427,275
Sept 2024	<u>\$ 3,387,047</u>
	<u>\$ 10,005,474</u>

EXHIBIT "B" is attached to show total unaudited expenditures. A summary of this exhibit is as follows:

- The Legislative Branch expended \$17,315,460, encumbered \$1,797,753, with a remaining budget of \$4,472,019.

- The Executive Branch expended \$162,412,267, encumbered \$20,402,935, with a remaining budget of \$50,507,434.
- The Judicial Branch expended \$13,991,469, encumbered \$128,528, with a remaining budget of \$5,399,374.
- Fixed Cost expended \$27,293,756; encumbered \$4,022,280 with a remaining budget of \$6,736,408.
- Total General Fund and Fixed Cost expenditures were \$221,012,953, total encumbrances were \$26,351,495, and the remaining budget was \$67,115,235.

EXHIBIT “C” presents the updated UUFB as of September 30, 2024, at \$290,313,470. Nine UUFB allocations totaled \$22,934,894 in Fiscal Year 2024.

4) Contract and Grants Information

EXHIBIT “D” is attached and is a summary of the Active Federal Funds by Division. Unaudited Summary totals for the active federal report show the revised budget to be \$3,240,951,444, actual expenses of \$1,383,359,218, encumbrances of \$505,038,224, and a remaining budget of \$1,352,554,002, as of August 31, 2024.

EXHIBIT “E” shows the Active State Funds Report by Division. Unaudited Summary totals for the active State report show the revised budget to be \$135,673,472, actual expenditures of \$21,134,642, encumbrances of \$20,609,754, and a remaining budget of \$93,929,077 as of August 31, 2024.

EXHIBIT “F” is the BIA-IHS Fund Report. Summary totals for the Active BIA-IHS report show the revised budget to be \$1,320,185,644, actual expenditures of \$722,494,675, encumbrances of \$41,524,976, and a remaining budget of \$566,165,993, as of August 31, 2024.

5) Investment Information

The investment results in the Fourth Quarter of Fiscal Year 2024 were significant due to the Federal Reserve starting to cut the Fed Rate.

The market value of fixed income and bank loan portfolios has increased due to the higher yield of securities bought during the high interest rates before the Fed started cutting the Fed Rate. Equity securities continued to add value even during the cooldown of AI-driven stocks. Real Estate managers have claimed to have reached the bottom and announced a positive outlook as transactions started to increase because of the falling interest rates.

The Nation's Direct Investment started receiving cash inflow representing both the COVID Accrued interest and the current accrued interest on the Senior Loan since the start of Calendar Year 2024.

The Nation's Fiscal Year 2024 has reached new market value highs in the investment portfolios. The Defined Benefit plan anticipates 6.4% investment returns, and FY24 has returned nearly three times that amount at 18.6%, which should lead to a well-funded status. Without any contribution, six of the trust funds in the Master Trust have surpassed pre-Covid levels and have bounced back completely, and four are near their pre-Covid highs. The Land Acquisition trust fund had withdrawn \$45M for an acquisition, and the investment returned \$35M, creating a net decrease of \$10M in the market value.

The in-house investment portfolio has increased considerably due to the recent transfer of \$521M from ARPA's long-term portfolio to the in-house investment portfolio in anticipation of the general fund reimbursement legislation for ARPA-related expenses.

As of September 30, 2024, the Master Trust had an ending market value of \$4.79 billion. The fund had a 1.53% MTD return and a QTD return of 4.95%, with an overall FYTD of 19.56%. The Master Trust portfolio received \$34.9M in investment income in the fourth Quarter through interest, dividends, and other income and \$191M in capital depreciation from unrealized gains and realized losses.

The Retirement Plan's ending Market Value was \$1.26 Billion as of September 30, 2024. Its MTD return was 1.34%, and its 4th QTD return was 4.69%, with an overall FYTD return of 18.60%. On average, the retirement portfolio has paid \$5M in monthly benefit payments. The 4th QTD received \$8.1M in investment income and capital appreciation of \$48.4M, which included unrealized losses and realized gains.

As of September 30, 2024, the ARPA portfolio at Northern Trust had an ending Market Value of \$416 Million. The portfolio had a 0.51% MTD return and a 0.96% 4th QTD return, with an overall FYTD of 4.74%.

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 September 30, 2024, the In-House portfolio had a Principal Amount of \$3.26 Billion. Approximately 39% of the In-house portfolio is contributed from the Grant Fund, 17.75% from the General Fund, and 27.54% from the ARPA account. The In-House Portfolio has an average Annualized Yield of 496 basis points and an average of 218-day tenor investments.

The In-House portfolio comprises a short-term fixed-income position and a money market fund. The short-term fixed-income position had a principal amount of \$2.4 billion, with an average Annualized Yield of 525 basis points. The Money Market Fund component had a total principal amount of \$805 million, with a 30-day average yield of 488 basis points.

Note: All numbers in this report and the attached EXHIBITS were obtained from the Navajo Nation's official books of record and were verified by the Office of the Controller, except where otherwise noted. The EXHIBITS attached to this report are confidential and are for internal use only. Dissemination of the EXHIBITS is at the sole discretion of those addressed in this memo.

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