

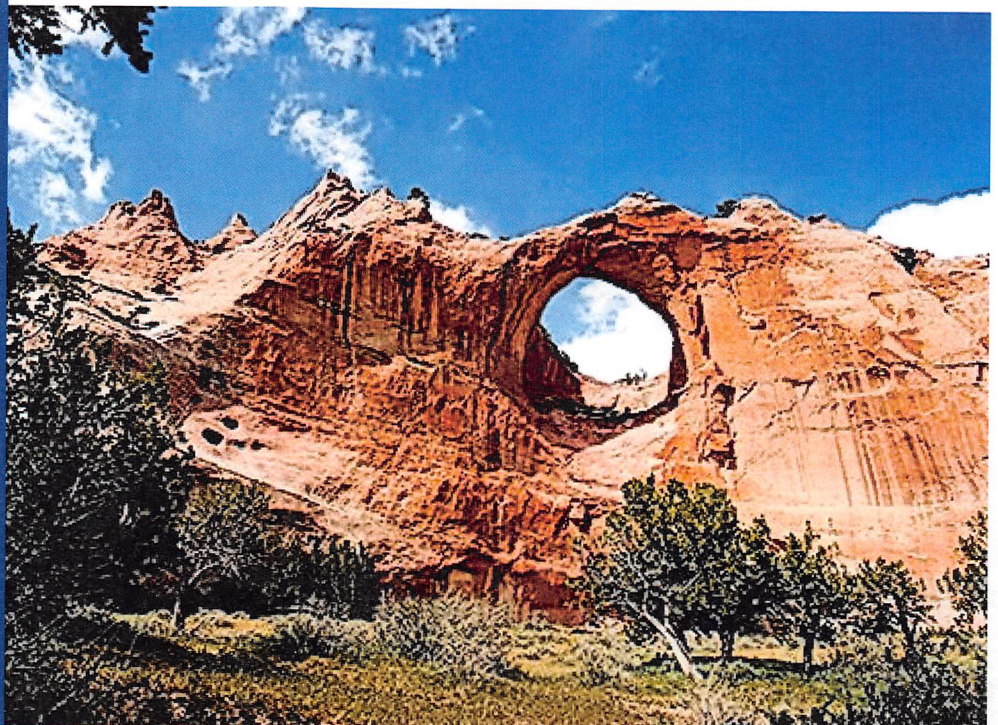
OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

Special Review of the Navajo Nation Employee Bonus Program

**Report No. 17-30
April 2017**

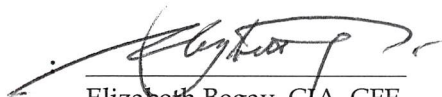
**Performed by:
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M-E-M-O-R-A-N-D-U-M

TO : NAVAJO NATION COUNCIL

FROM



Elizabeth Begay, CIA, CFE
Auditor General
OFFICE OF THE AUDITOR GENERAL

DATE : April 12, 2017

SUBJECT : Navajo Nation Employee Bonus Special Review

The Office of the Auditor General herewith transmits Audit Report no. 17-30, a Special Review of the Navajo Nation Employee Bonus Program. The objective for this special review was to determine whether: 1) the divisions/departments followed written procedures, 2) requirements for bonuses were met, and 3) bonuses were justified and warranted.

The Navajo Nation employees are awarded 2 types of bonuses: 1) merit bonus awarded based on Employee Performance Appraisals, and 2) "other" bonus awarded on a "case-by-case" basis in the best interest of the Navajo Nation. Review of the Navajo Nation employee bonuses between 2012 and 2016 found that 2,694 employees were awarded a total of \$5.8 million in bonuses. Our review noted the following:

- 90% of all bonuses paid to employees were other bonuses.
- Other bonuses awarded to employees may not be justifiable.
- Employees were awarded other bonuses without considering the status of their employee performance appraisal and/or their division/department performance evaluation.
- Awarding other bonuses had no dollar limits which enabled 366 employees to receive other bonuses from above 5% to as much as 52% of their annual salary.
- For Navajo Nation funded divisions/departments, bonuses were not budgeted at the beginning of the fiscal year.
- For externally funded divisions/departments, bonuses were not budgeted at the beginning of the fiscal year and budget transfers were not approved by their funding agencies.

Navajo Nation employees need and deserve work incentives, but such incentives should be granted based on outstanding or superior performance. When administered correctly, work incentives and performance awards are not only appropriate, but are essential for a healthy work environment. If employees are awarded regardless of their work behavior, management is reinforcing mediocre work behavior.

More details on all of these issues can be found in the body of this report.

xc: Allen Sloan, Acting Chief Justice
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INTRODUCTION AND BACKGROUND

The Office of the Auditor General conducted a special review of the Navajo Nation Employee Bonus Program in response to a request from the Health, Education and Human Services Committee. The Navajo Nation awarded 4,965 bonuses to 2,694 employees totaling \$5.8 million from fiscal year 2012 through 2016. All bonuses awarded were cash incentives and 90% of the bonuses awarded were other bonuses.

According to the Navajo Nation Department of Personnel, there were two types of bonuses awarded to executive and legislative employees: 1) merit bonuses awarded based on Employee Performance Appraisals with a bonus limit of \$1,000 and 2) "other" bonuses awarded on a "case-by-case" basis in the best interest of the Navajo Nation without any bonus limits. The judicial branch's Office of Human Resources has similar types of bonuses.

An employee is eligible for a merit bonus if he/she earns an overall rating of 4 or 5 on their employee performance appraisal. Other bonuses are awarded at the discretion of the supervisors, managers and Department of Personnel Management based on written justification.

Between fiscal year 2012 through 2016, bonuses awarded were as follows:

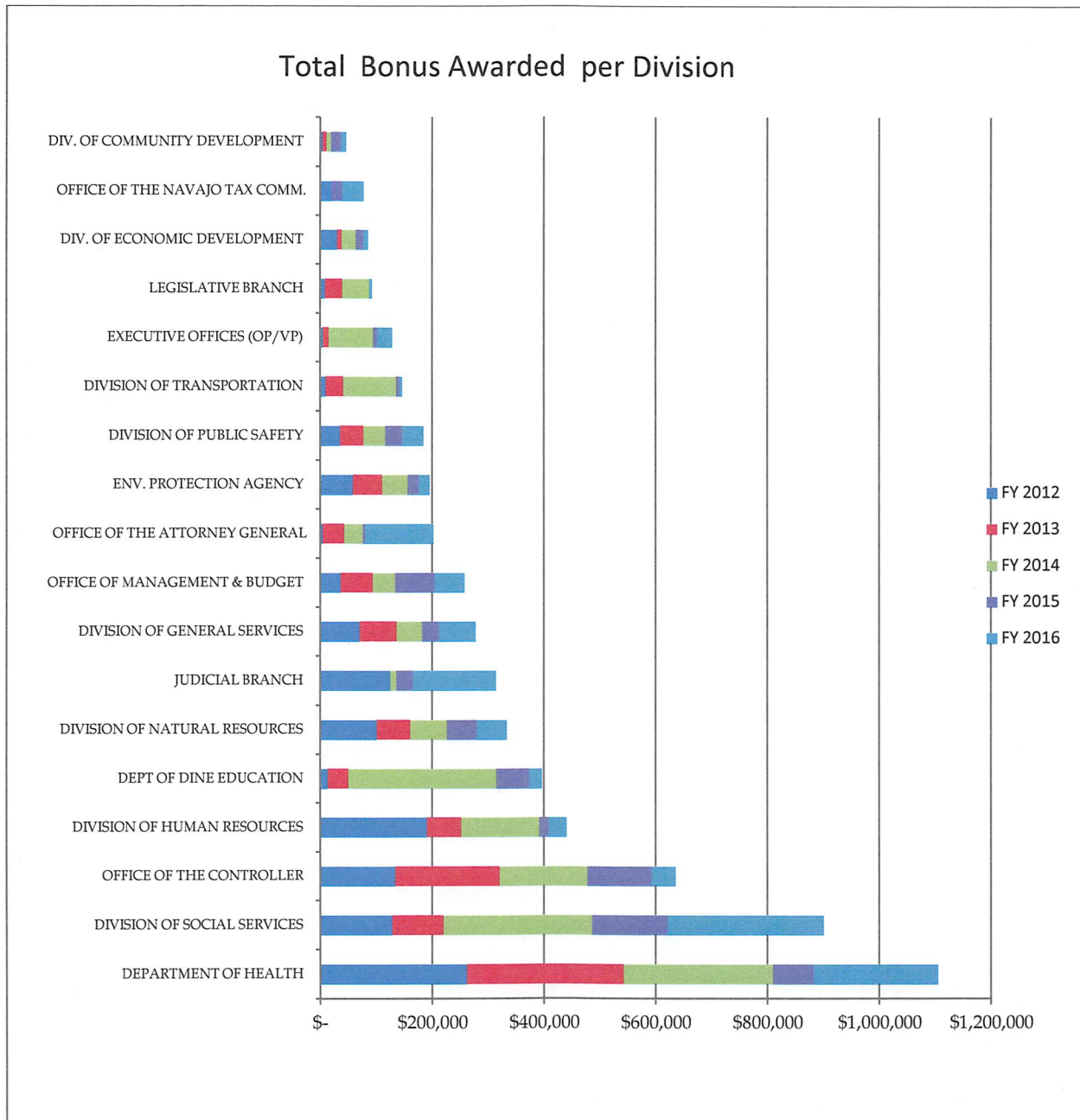
Fiscal Year	Total Expenditure	Number of Bonuses Awarded
2012	\$ 1,236,282.84	1,196
2013	\$ 1,061,659.41	952
2014	\$ 1,628,863.78	1,198
2015	\$ 703,224.95	623
2016	\$ 1,191,303.70	996
TOTAL:	\$ 5,821,334.68	4,965

Note: In FY 2015, the total awarded bonus was lowest due to a Condition of Appropriation (COA) of a 5% limit placed upon the divisions.

Over a five year period, Navajo Nation General Fund, Special Revenue Fund and external grants were used to award bonuses as follows:

Fiscal Year	General Fund	Grant	Special Revenue	Total
FY 2012	\$ 628,430.76	\$ 598,852.08	\$ 9,000.00	\$ 1,236,282.84
FY 2013	\$ 558,148.48	\$ 491,566.93	\$ 11,944.00	\$ 1,061,659.41
FY 2014	\$ 741,774.80	\$ 881,838.98	\$ 5,250.00	\$ 1,628,863.78
FY 2015	\$ 441,107.81	\$ 252,267.14	\$ 9,850.00	\$ 703,224.95
FY 2016	\$ 630,508.34	\$ 560,795.36	\$ -	\$ 1,191,303.70
Total:	\$ 2,999,970.19	\$ 2,785,320.49	\$ 36,044.00	\$ 5,821,334.68
	51%	48%	1%	

18 divisions and offices awarded bonuses over 5 years reviewed, the total for each division was as high as \$1.1 million to as low as \$45,995.



Individual employees were awarded bonuses ranging from \$100 to \$20,000 per bonus. Of the 4,965 bonuses given to 2,694 employees, 31 employees in the management position received a minimum of \$5,000 per bonus.

Bonus Amount Range	Number of Bonuses Awarded	Amount of Bonus Awarded
100 - 999	2,276	\$ 1,357,011.57
1,000 - 1,999	2,103	\$ 2,639,313.92
2,000 - 2,999	333	\$ 736,500.28
3,000 - 3,999	147	\$ 479,028.57
4,000 - 4,999	42	\$ 174,614.80
5,000 - 5,999	31	\$ 160,181.00
6,000 - 9,999	30	\$ 218,896.06
10,000 - 20,000	3	\$ 55,788.48
Totals:	4,965	\$ 5,821,334.68

128 employees in eight divisions received a bonus every fiscal year. Of the 128, 15 employees received more than one bonus in a given fiscal year.

Division Name	Number of Employees	Amount Awarded
DIVISION OF SOCIAL SERVICES	96	\$ 381,900.00
OFFICE OF MANAGEMENT & BUDGET	20	\$ 206,294.20
OFFICE OF THE CONTROLLER	5	\$ 29,452.34
DIVISION OF HUMAN RESOURCES	1	\$ 13,800.00
DEPARTMENT OF HEALTH	2	\$ 13,659.24
DIVISION OF PUBLIC SAFETY	1	\$ 10,518.00
DIVISION OF NATURAL RESOURCES	2	\$ 10,200.00
DEPT OF DINE EDUCATION	1	\$ 6,500.00
Total:	128	\$ 672,323.78

Objective, Scope and Methodology

For this special review, the Office of the Auditor General established the following objective to determine whether: 1) the divisions/departments followed written procedures, 2) requirements for bonuses were met and 3) bonuses were justified and warranted.

In this report, we present information related to bonuses paid between 2012 and 2016 but we limited our compliance testing to fiscal year 2015 and 2016.

To meet the audit objective, we performed the following procedures:

- Interviewed staff from the Department of Personnel Management and Office of Management and Budget to get an understanding of how bonus budgets were approved and bonuses were awarded.
- Reviewed Navajo Nation policies, procedures, standard forms, awarded employee files, budgets, reports, and other applicable records to meet the audit objective.
- Summarized and graphed data regarding bonuses awarded to individual employees and operating divisions by fiscal years 2012-2016,
- Statistically selected and tested a sample of 40 merit bonuses and 120 other bonuses out of a population of 183 merit bonuses and 1,436 other bonuses awarded during fiscal years 2015 and 2016 to verify compliance with the Navajo Nation Personnel Policy and other applicable Navajo Nation laws.
- Judgmentally selected and tested a sample of 18 business units out of a population of 81 business units that awarded bonuses during fiscal years 2015 and 2016 to verify whether bonuses were budgeted at the beginning of the fiscal year, budget transfers were approved by Office of Management and Budget, and bonuses and budget transfers were approved by external grants.

The Auditor General and staff express appreciation to the Department of Personnel Management, Office of Management and Budget, and Judicial Branch Human Resources for their cooperation and assistance throughout this review.

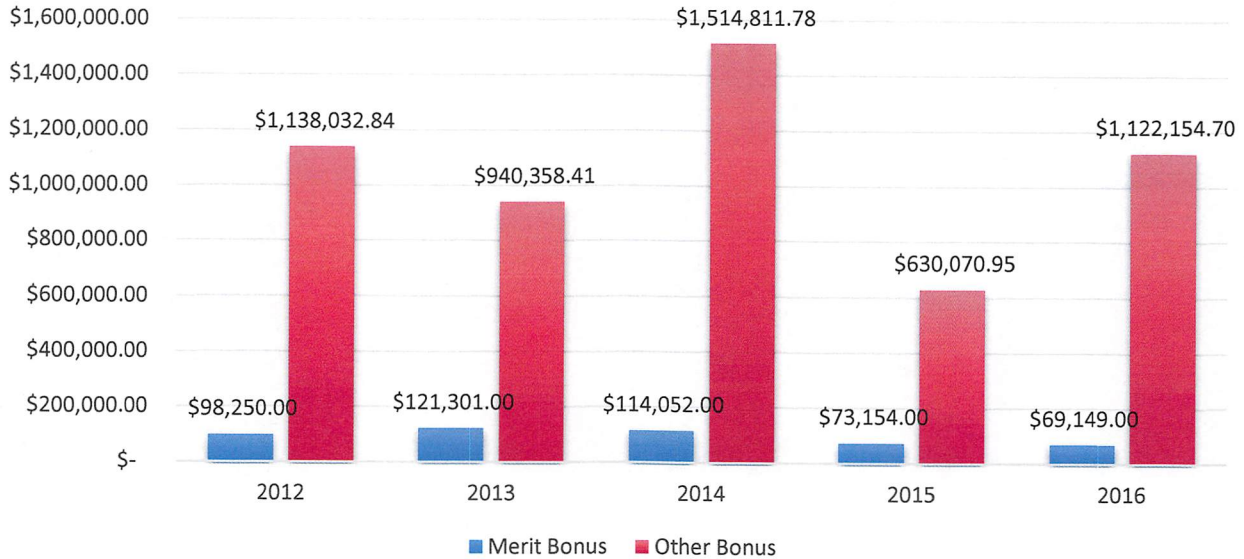
Review Results

90% of all bonuses paid to employees were other bonuses.

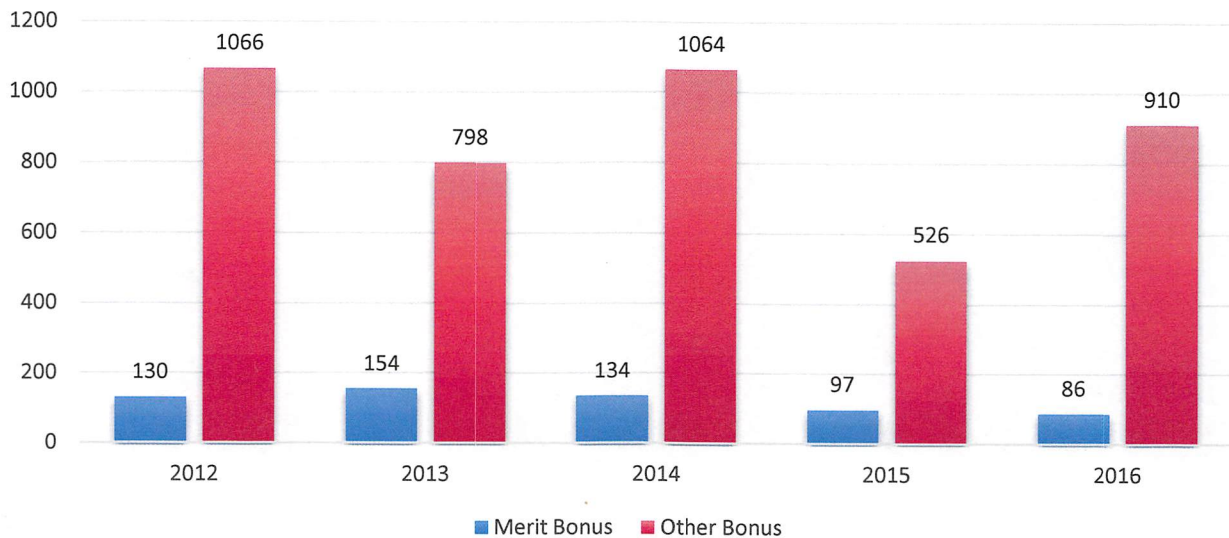
CONDITION

Other bonuses made up approximately 90% of the total bonuses paid in both total dollars and number of bonuses each fiscal year.

Amount of Bonuses Awarded by Fiscal Year



Number of Bonuses Awarded by Fiscal Year



RECOMMENDATION

1. The Department of Personnel should clearly define and clarify reward criteria and policies for other bonus.

Other bonuses awarded to employees may not be justifiable.

CONDITION

Based on 120 other bonuses tested, 25 did not have supporting documents on file to show any justification for the bonus awarded. The documented justifications for the 95 other bonuses tested may not have been in the best interest of the Navajo Nation as required by policy. Examples of justifications submitted to support awarding other bonuses were as follows:

- *“Normal duties and responsibilities were accomplished*
- *Funds were available*
- *General Wage Adjustment have not been received*
- *Compensated for the Navajo Nation’s low wages*
- *Successfully performed and carried out responsibilities without business interruption*
- *Excelled or improved function*
- *Dedication*
- *Good attendance*
- *Spearheaded projects*
- *Took on assignment that are outside normal scope of work*
- *Revised policies and procedures*
- *Served a delegated position*
- *Carried additional case load and*
- *Worked odd hours.”*

Based on the justifications listed above, justifying and awarding other bonuses is easier for managers than justifying and awarding a merit bonus because the criteria for awarding a merit bonus is specific and the criteria for awarding other bonuses is ill defined.

RECOMMENDATION

1. The Department of Personnel should create clear and restrictive criteria for awarding other bonuses. Other bonuses should be awarded as a result of exceptional effort. Examples of recommended criteria:
 - Increasing office efficiency
 - Exemplary performance
 - Exemplary performance on team projects
 - Exemplary leadership and/or initiative beyond that normally expected in an individual’s assignment
 - Cost savings
 - Value enhancement
 - Public and employee relationships
 - Retention and recruitment

Employees were awarded other bonuses without considering the status of their employee performance appraisal.

CONDITION

Navajo Nation awarded bonuses for mediocre work behavior.

For 5 of 120 other bonuses tested, employees earned a rating of "3" on their Employee Performance Appraisal Form (meets standards). The rating scale is as follows:

- 1-Unsatisfactory
- 2-Does not fully meet standards
- 3-Meet standards
- 4-Significantly exceeds standards
- 5-Outstanding

For 43 of 120 other bonuses tested, Employee Performance Appraisal Forms were not completed for the employees.

RECOMMENDATION

1. The directors/managers should complete the employee performance appraisal every year as required by policy and only award bonus to employees that received a 4 and above rating.

Employees were awarded other bonuses without considering the status of their division/department performance evaluation.

CONDITION

Navajo Nation awarded bonuses to employees of division/department with average performance. For 103 out of 120 other bonuses tested (86%), the employees' division/department performance evaluation rating was below a "3" (exceeded). The division/department rating scale is as follows:

- 0-Not reporting
- 1-Not met goals
- 2-Meet goals
- 3-Exceed goals

RECOMMENDATION

1. The division/managers should complete the division/department performance evaluation as required by policy and only award bonuses to employees whose division/department received 3 rating.

Awarding other bonuses had no dollar limits which enabled 366 employees to receive other bonuses from above 5% to as much as 52% of their annual salary.

CONDITION

Between FY 2012-2016, employees were awarded other bonuses as high as 52% of individual annual salary.

Percentage of Annual Salary Awarded	No. of Employees
Above 50%	1
15%- 31%	19
10% -14%	77
6% -9%	269
Total:	366

RECOMMENDATION

Navajo Nation Council should:

1. Limit the dollar amount of other bonus awarded. The Navajo Nation Council adopted a 5% of annual salary limit in FY 2015.
2. Remove the option to award other bonus from the personnel policy.

For Navajo Nation funded divisions/departments, bonuses were not budgeted at the beginning of the fiscal year.

CONDITION

Navajo Nation funded divisions/departments did not budget for bonuses at the beginning of the fiscal year. Transfers from other object code budgets were made during the year to fund bonuses. Transfer from personnel sub-accounts and operating budget object codes such as travel, supplies (listed below) to the bonus line item is an allowable method of budget revision per the Navajo Nation budget instructions manual. The divisions/ departments only need the approval from the Office of Management and Budget to fund the bonus. Our compilation of budget transfers shows the following object codes were used to fund employee bonuses:

Object Codes		Navajo Nation Fund transferred to cover bonuses From FY 2015 to FY 2016
2110	Salary (Vacant Position)	\$ 630,841.20
2200	Salary Adj	\$ 44,802.00
2310	Temporary	\$ 60,921.00
2510	Overtime	\$ 15,485.00
2900	Fringe Benefits	\$ 12,480.12
3000	Travel Expenses	\$ 100,352.92
4000	Supplies	\$ 66,740.72
5000	Lease & Rental	\$ 17,959.24
6000	Repairs & Maintenance	\$ 77,489.28
7000	Special Transactions	\$ 39,151.00
9000	Capital Outlay	\$ 65,669.00

RECOMMENDATION

1. The division/department should establish a budget for bonuses at the beginning of the fiscal year if they anticipate to award bonuses.
2. The Office of Management and Budget should amend the budget instructions manual to prohibit budget transfers to fund employee bonuses.

For externally funded division/departments, bonuses were not budgeted at the beginning of the fiscal year and budget transfers were not approved by their funding agencies.

CONDITION

For externally funded divisions/departments, we tested 18 business units, and 12 business units (67%) did not budget for bonuses at the beginning of the fiscal year. 9 out of the 18 business units (50%) that awarded bonuses were not approved by the external grantors. Transfers from other object code budgets to fund employee bonuses are allowable per Navajo Nation budget instructions manual. The Office of Management and Budget approved the transfers without requiring the externally funded divisions/departments to obtain approval from their external grantors. Listed below are the object codes that were used to fund employee bonuses by external funded divisions/departments.

Object Codes		External Fund transferred to cover bonuses From FY 2015 to FY 2016
2110	Salary (Vacant Position)	\$ 283,279.26
2200	Salary Adj	\$ 19,680.98
2310	Temporary	\$ 1,505.12
2510	Overtime	\$ 2,400.00
2900	Fringe Benefits	\$ 17,182.06
3000	Travel Expenses	\$ 99,708.00
4000	Supplies	\$ 48,161.54
5000	Lease & Rental	\$ 2,900.00
6000	Repairs & Maintenance	\$ 2,300.00
7000	Special Transactions	\$ 19,134.20
8000	Assistance	\$ 2,663.48
9000	Capital Outlay	\$ 123,031.90

RECOMMENDATION

1. External funded divisions/departments should establish a budget for bonuses at the beginning of the fiscal year if they anticipate to award bonuses.
2. The budget and budget transfers for bonuses should be approved by the external grantors before awarding bonuses.
3. The office of Management and Budget should amend the budget instructions manual that budget transfers to fund employee bonuses will not be approved without documented approval from external funding source.

CONCLUSION

Navajo Nation employees need and deserve work incentives, but such incentives should be granted based on outstanding or superior performance. When administered correctly, work incentives and performance awards are not only appropriate, but are essential for a healthy work environment. If employees are awarded regardless of their work behavior, management is reinforcing mediocre work behavior.

The Navajo Nation follows a clearly defined policies and procedures for merit bonuses, which comprise 10% of all bonuses. The policies for other bonuses, which comprise 90% of all bonuses paid, are vague and permissive. Because the other bonus policy is vague and permissive, it allowed bonuses to be awarded that were not properly justified and warranted. In order to ensure that incentives are administered properly, policies for other bonuses should be clearly defined and clarified.

Criteria for determining if other bonus should be awarded should be established, and these criteria should include the completion of an annual employee performance appraisal. Budget justifications should clearly state the reasons for awarding of other bonuses. Division/department performance evaluation ratings should also be taken into consideration when awarding other bonuses.

Furthermore, bonuses were not budgeted and approved in advance as required. At the beginning of the fiscal year, budgets for bonuses should be included and approved by the funding sources including any budget transfers. For Navajo Nation funded divisions/departments, bonuses were not budgeted at the beginning of the fiscal year. For externally funded divisions/departments, bonuses were not budgeted at the beginning of the fiscal year and budget transfers to fund the bonuses were not approved by the external funding sources.