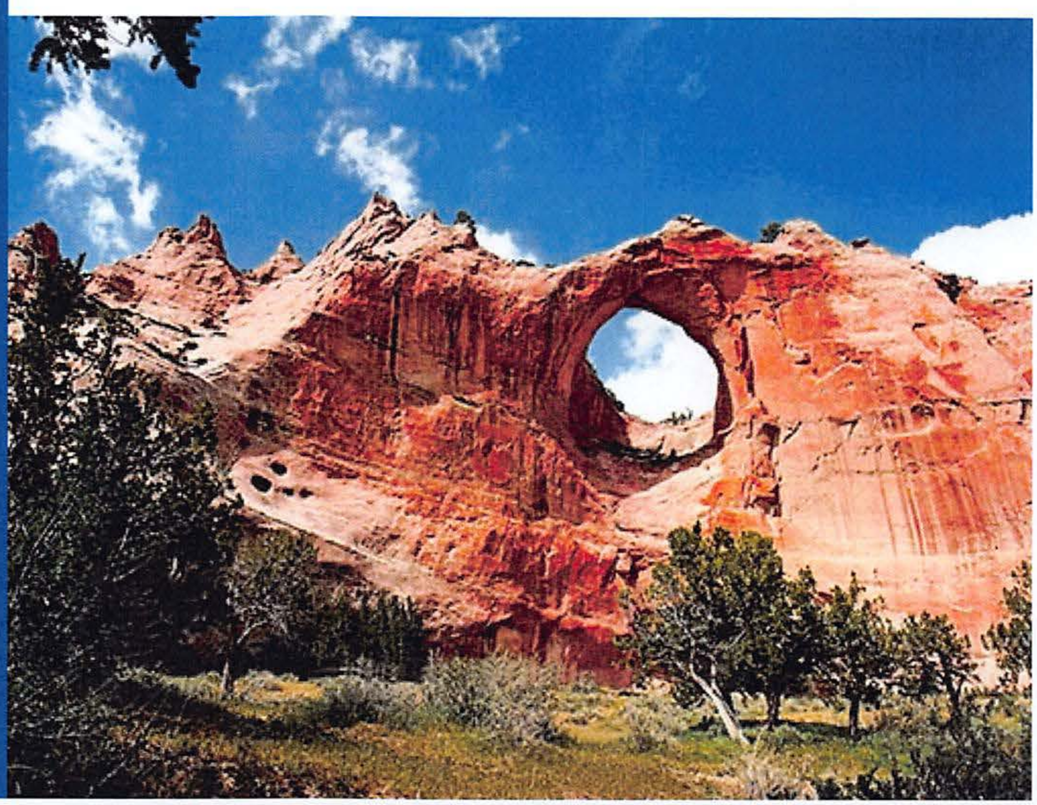
OFFICE OF THE AUDITOR GENERAL

The Navajo Nation

A Performance Audit of the Navajo Arts and Crafts Enterprise (NACE)



Report No. 25-22
October 2025

Performed by:
TAP INTERNATIONAL, INC.

Office of the Auditor General
The Navajo Nation

Jeanine M. Jones, CFE, MFA
Auditor General

M-E-M-O-R-A-N-D-U-M

TO : JT Willie, Chief Executive Officer
NAVAJO ARTS AND CRAFTS ENTERPRISE

FROM : Jeanine Jones, CFE, MFA
Auditor General
OFFICE OF THE AUDITOR GENERAL

DATE : October 07, 2025

SUBJECT : Performance Audit of the Navajo Arts and Crafts Enterprise

The Office of the Auditor General herewith transmits Audit Report No. 25-22, a Performance Audit of the Navajo Arts and Crafts Enterprise (NACE). The performance audit was conducted, in conjunction with TAP International, Inc., to determine the efficiency and effectiveness of NACE in utilizing current resources, managing operations, administering key services, fulfilling stated objectives and examining NACE's internal control systems and processes to identify opportunities for improvement. The audit period covered July 2021 to June 2024 for fiscal health analysis and July 2024 to June 30, 2025, for all other areas.

The auditors reported three (3) main findings:

1. Finding 1: NACE is trying to improve its fiscal strength which has remained poor during the period of our review, Calendar Year 2021 to 2024.
2. Finding 2: Key business activities and tools need development or enhancement.
3. Finding 3: Improvement opportunities identified among selected partners.

For the three findings, the auditors offered eight (8) recommendations to serve as a road map to transform the operations and culture of NACE. The recommendations are designed to improve the internal control and a performance framework.

If you have any questions about this report, please contact our office at extension 6303. Thank you for your assistance in completing this audit.

xc: Jerome Tsosie, Chairman
Ray Tracey, Member
Eugene Begaye, Member
Tosha Laughing, Member
BOARD OF DIRECTORS/NACE
Denise Callahan, President
TAP INTERNATIONAL, INC.
Chrono

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AUDIT HIGHLIGHTS

WHY IT WAS IMPORTANT TO COMPLETE THIS AUDIT

Auditing Navajo Arts and Crafts Enterprise (NACE) operations is essential to assess efficiency, effectiveness and the economic state of the enterprise. It ensures the enterprise is self-sufficient and is meeting its general purpose, which is to showcase the artistry and crafts of the Navajo Nation (NN), and to be represented in the marketplace.

HOW THE AUDIT WAS CONDUCTED

As part of the NN Office of Auditor General's (OAG) ongoing responsibility to perform audits of departments, programs or enterprises, OAG contracted with TAP International to 1) evaluate the efficiency and effectiveness of NACE in utilizing current resources, managing operations, administering key services, and fulfilling stated objectives, and 2) examine NACE's internal control systems and processes to identify opportunities for improvement.

To address these objectives, TAP International reviewed NACE documents, conducted financial analysis, interviewed selected management and staff, and performed an internal control and marketing program assessment to identify opportunities for improvement.

RESULTS IN BRIEF

NACE executive management has implemented activities to strengthen its fiscal health, such as downsizing staff by one-third and closing three stores among other actions taken. Despite these efforts, NACE has operational, organizational and strategic challenges that presently prevent NACE from becoming fiscally sustainable. Revenues have declined sharply since 2021, with gross revenue falling by more than 50 percent in CY2024 and cash balances declining by 86 percent that same year. With NACE implementing expense reductions, the CY2025 budget projects $12.3 million in expenditures against only $7 million in estimated revenues, creating a projected operating loss of $5.3 million. Cash shortages have already led to delays in vendor payments, with more than half of accounts payable invoices over 120 days past due. These fiscal challenges are compounded by weak budget reporting practices to the Board of Directors, including reliance on summary budgets lacking enterprise-wide line-item detail, and a $3.2 million discrepancy between the Board-approved summary budget and the actual line-item budget.

Beyond fiscal issues, NACE's current practice of paying bonuses as accounts payable checks and reporting them on Form 1099-MISC, as well as late filing of 1099 forms does not comply with Internal Revenue Service regulations, creating potential tax liabilities. Operationally, while NACE has a documented strategic plan, accomplishing established priorities have faced delays, such as the relaunch of the GoNavajo.com website because of access rights issues for the GoNavajo domain.

Other concerns include reassignment of some staff without having sufficient background or prior experience in equivalent positions or a training program as well as insufficient standard operating procedures that impact day-to-day operation.

For the last several years, NACE has continued to evolve, as evidenced by its progress in implementing key marketing activities, initiating updates to internal control documentation, and working to expand NACE merchandizing. These efforts, however, have not yet led to improvement in NACE's fiscal health. NACE will continue to experience challenges that limit its ability to be self-sustaining without better attention to strategic, operational and financial management.

RECOMMENDATIONS

Unless otherwise indicated, the CEO of NACE should implement the following recommendations to continue to enhance NACE's operational integrity and financial oversight as well as build innovative marketing campaigns to increase NACE's target customers.

1. **Develop a Comprehensive Three-Year Marketing Plan**
   a. Establish a formal marketing plan that outlines objectives, strategies, target audiences, budgets, and performance indicators. The plan should include both traditional and digital marketing activities, and specific initiatives to increase its customer base.

2. **Implement Intervening Sales Strategies**
   For Chinle, Kayenta and Shiprock stores, develop and implement turnaround strategies, conduct monthly monitoring trends of sales and sales per square foot, and consider expanding merchandise variety at these stores upon completion of proper sales forecasts. If these declines persist, consider downsizing underperforming locations while investing further in the Window Rock store.

3. **Create a Detailed Website Relaunch Project Plan**
   a. Develop a comprehensive project management plan for the GoNavajo.com relaunch, assigning a Project Leader and cross-departmental task force to meet weekly, track milestones, and address risks. If internal resources are insufficient, outsource the project to a qualified web developer with proven expertise in retail and e-commerce platforms, or
   Consider using Amazon marketplace or a similar online retail platform to sell NACE products in lieu of setting up online retail sales on the GoNavajo.com platform.

4. **Establish Enterprise-Wide Key Performance Measures (KPIs)**
   a. Require each department to track, monitor, and report monthly on measurable performance indicators.

   Store Operations:
   - Sales per square foot (space utilization efficiency)
   - Sales per employee (staff productivity)
   - Customer conversion rate (visitors to buyers)
   - Average transaction value (customer demographics and purchasing power)
   - Customer retention rate (loyalty and satisfaction)
   - Shrinkage rate per store (loss/damage controls)

Purchasing:

- Inventory turnover by product line (movement and efficiency)
- Sell-through rate (effectiveness of purchasing decisions)

Marketing:

- Social media engagement (views, comments, interactions)
- Store foot traffic following marketing campaigns
- Website performance (unique visitors, page views, bounce rate)

5. **Strengthen Board Governance and Structure**
   a. The NN Council should limit tenure of NACE Board of Director members to no more than two four-year terms, ensuring automatic expiration after 8 years to improve governance diversity and accountability.
   b. The NACE Board President should require the submission and approval of detailed line-item budgets (enterprise-wide and by department), supported by revenue and expense projections.
   c. The NACE Board President should mandate adoption of a balanced budget policy, requiring that projected revenues from all sources equal or exceed projected expenses annually.
   d. The NACE Board President should require quarterly Board reporting on cash reserves, with a policy target of maintaining at least three to six months of operating expenses in cash reserves.

6. **Improve Tax Compliance**
   a. Eliminate issuance of employee bonuses through accounts payable and issue all bonuses through payroll in compliance with Internal Revenue Service regulations.
   b. Update finance policies to include explicit deadlines for 1099 filings with the Internal Revenue Service and prohibit employee compensation from being classified as vendor payments.
   c. Provide ongoing staff training in payroll tax compliance and financial reporting requirements.
   d. Work with tax accountants or legal counsel to rectify the prior three years bonuses that were paid incorrectly as 1099 compensation and revise and reissue the Internal Revenue Service forms.

7. **Strengthen Internal Controls and Implement a Comprehensive Set of Written Policies and Procedures**
   a. Implement all 20 recommended actions from Appendix A to align NACE's internal control environment with the COSO Internal Control Framework.
   b. Ensure proper segregation of duties across finance, purchasing,

and accounts payable functions.

c. Assign financial oversight responsibilities to qualified staff or external advisors until permanent staff with appropriate expertise are in place.

8. **Enhance Strategic and Operational Planning**
   a. Implement all 15 recommended actions from Appendix B to strengthen NACE's strategic and operational planning processes.
   b. Require each department to align annual goals with enterprise strategic priorities, supported by documented action steps, timelines, and measurable outcomes.
   c. Establish quarterly progress reviews to ensure accountability for achieving strategic objectives.
   d. Finalize the current draft policies and procedures documents.
   e. Eliminate use of non-disclosure agreements to align with NN personnel rules and policy.

INTRODUCTION

NAVAJO ENTERPRISES

Over the years, the NN has established at least 13 tribal enterprises, such as the Navajo Arts and Crafts Enterprise (NACE) to help generate revenues to support NN services. Tribal enterprises were established to be self-sufficient based on their established authorities, without having to rely on the NN General Fund to fund operations. The enterprises operate independently to the extent of carrying out commercial activities and operate like a business on behalf of the NN. These entities self-generate revenues to meet their various needs.

At NACE, the enterprise has its own management team to manage the organization operations and a board of directors responsible for providing oversight and advice to ensure the entity operates effectively, lawfully and in the best interests of the stakeholders. Like other NN enterprises, NACE periodically reports to the Resources and Development Committee (RDC), an oversight committee of the NN Council, reporting on finances, operations, projects, strategic plans and revenues. In the Spring 2025, NACE provided a follow-up report on a prior December 2024 report to the RDC. They discussed NACE's current and future plans for its operations, which included updates on:

- Status of TAP International performance audit,
- Navajo artisan purchases - 86 since January 2025 totaling $154,000,
- Community Engagement - completed three art markets and four workshops,
- Staff turnover rates - staff turnover averaged more than 50 people each month for the last three months,
- Accounts Receivable (AR) turnover days - number of days has increased each year from 66 in 2021 to 170 days as of May 2025 (158 percent increase),
- Actual sales and sales projections from 2021 through 2027,
- NN sales tax, insurance payments, and payroll deduction fees for the last several years,
- NACE's current Board of Directors, and
- Status of financial statement audits from 2020 through 2024.

NAVAJO ARTS AND CRAFTS ENTERPRISE

NACE was originally the Navajo Arts and Crafts Guild established in 1941 to support Navajo artists and preserve traditional crafts. The Guild was changed to an Enterprise operation in 1971 for the purpose of purchasing and selling Navajo arts and crafts. According to the Plan of Operation the specific activities for which NACE is responsible are as follows:

- To showcase the artistry and crafts of the NN and to be represented in the market place;
- To establish outlets as may be cost effective for the sale of Navajo arts and crafts and related merchandise on or near the NN, throughout the United States and around the world;
- To provide a source of raw materials at a fair price to Navajo artisans for use in the creation of Navajo arts and crafts;
- To purchase at fair market rates the finished products from Navajo artisans and craftspeople, and from such other sources as may be necessary to provide a fully integrated arts and crafts facility; and
- To promote Navajo arts and crafts in any and all other ways deemed by the NACE Board of Directors to be in the best interest of NACE and the NN.

Figure 1 below describes the overall characteristics of NACE.

Figure 1: About NACE

Aspect	Details
What	Tribal enterprise launched as a guild in 1941; chartered in 1962 under Resolution CIY-40-89.
Where	Multiple locations across Navajo Nation—Window Rock, Chinle, Cameron, and Kayenta. The headquarters, production department and warehouse are located in St. Michaels.
Why it matters	Supports Indigenous artisans, safeguards authenticity, sustains economic opportunities
Cultural roots	Anchored in long-standing Navajo traditions of weaving, silversmithing, jewelry-making
Contemporary efforts	Affordable art markets, renewed focus on artist empowerment and cultural preservation

AUDIT SCOPE AND METHODOLOGY

The NN Auditor General contracted with TAP International, Inc. to conduct a performance audit of NACE, focusing on the efficiency and effectiveness of NACE in utilizing current resources, managing operations, administering key services, fulfilling stated objectives and meeting applicable performance measures. The audit examined applicable internal control systems and processes to identify opportunities for improvement.

To address these objectives, we conducted the following activities:

- Reviewed draft policies, procedures and processes related to retail

management, financial management, procurement, inventory management, marketing, training and staffing.
- Reviewed audited financial statements and financial documents for the last four years and budgets for the last two years to assess financial stability.
- Reviewed accounting documents to assess the adequacy of reconciliation efforts.
- Reviewed Accounts Payable data to assess timeliness of payments to vendors, adequacy of internal controls, and compliance to Internal Revenue Code.
- Reviewed the effectiveness and efficiency of Marketing and Store Operations and compared departmental operations to best practices for retail operations.
- Reviewed inventory management, cash management, and purchasing against best practices and to assess adequacy of internal controls.
- Calculated key performance metrics to assess financial stability.
- Compared current NACE internal controls to the COSO Internal Control Framework best practices.
- Interviewed NACE staff and management to discuss internal controls, departmental responsibilities, coordination between departments to achieve operational objectives, and progress on 2025 goals and objectives.
- Interviewed two members of NACE's board of directors to discuss strategic objectives and oversight of NACE.
- Interviewed NACE vendors to assess satisfaction with NACE business practices.

The audit period covered July 2021 to June 2024 for fiscal health analysis and July 2024 to June 30, 2025 for all other areas. The audit excluded a review of discount pricing activities because of a potential ethics investigation initiated by NACE.

Assessment of Internal Control

Auditing standards require an assessment of internal controls if internal controls are applicable to the audit objectives. Internal controls are processes, procedures, and other tools management use to help an entity achieve its objectives and comply with applicable laws and regulations. The objectives for this examination are applicable to internal controls which were evaluated and assessed throughout this report.

Assessment of Data Reliability

Auditing standards require an assessment of the sufficiency and appropriateness of computer-processed information to support our findings, conclusions, and recommendations. This requirement is not applicable to the scope of this audit.

Audit Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards required that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Agency Comments

NACE officials reviewed the draft report and accepted the findings including this report. Appendix D of this report includes the NACE prepared corrective action plan.

KEY RESULTS

FINDING 1: NACE IS TRYING TO IMPROVE ITS FISCAL STRENGTH WHICH HAS REMAINED POOR DURING THE PERIOD OF OUR REVIEW, CY 2021 TO 2024.

Fiscal stability refers to the financial health and strength of the business, enabling it to consistently meet its obligations, manage expenses, and adapt to changing market conditions. Fiscal health metrics serve to describe the relative fiscal strength of an organization and can serve as warning signs when year over year declines occur in operations.

As shown in Figure 2, Calendar Year (CY) 2024 Sales revenue declined by about 51 percent from CY2023. Similarly, Gross Profit declined by about 33 percent between CY2023 and CY2024. Cash available at year-end declined by 83 percent in CY2023 and by 86 percent in CY2024. Total Current Assets declined by 29 percent in CY2023 and by almost nine percent in CY2024.

In addition, NACE has sustained losses from operations between CY 2021 and CY2024, as shown in Figure 2. CY2021 was the last year that the Total Change in Net Position[1] was positive. This occurred because there was a one-time $2 million contribution from NN.

Figure 2: NACE Financial Performance Measures

	2021	2022	2023[2]	2024 (est)[3]
Sales[4]	$10,581,023	$12,137,051	$12,320,683	$6,049,558
Percent Change		14.7%	1.5%	-50.9%
Gross Profit **Percent Change**	$3,611,877	$3,416,994 -5.4%	$3,564,359 4.3%	$2,373,826 -33.4%
Cash	$3,805,099	$2,105,770	$358,257	$48,900
Percent Change		-44.7%	-83.0%	-86.4%
Current Assets **Percent Change**	$9,420,105	$9,560,851 1.5%	$6,752,241 -29.4%	$6,165,013 -8.7%
Loss from Operations	-$714,210	-$1,140,967	-$2,735,244	-$2,331,647
Percent Change		-59.8%	-139.7%	14.8%
Total Change in Net Position [1]	$1,779,841	-$1,170,954 -165.8%	-$2,778,366 -137.3%	-2,380,487 14.3%

1 Change in Net Position is total income or loss for a business entity, it includes profit or loss from operations and nonoperating revenue or expenses, such as interest earned, financing charges or PPP loan forgiveness.

2 The 2023 audited financial statements were still in draft form at the time this report was written.

3 The 2024 financial statements have not been audited yet, NACE estimates that the audited financial statements will be completed at the end of Fall 2025.

4 Sales does not include discounts, returns, allowances, or cost of goods sold.

In CY2024, NACE successfully lowered expenditures in several areas, but the CY2025 budget has projected an increase in certain types of expenditures in all these accounts, as shown in Figure 3.

Figure 3: Budget vs. Actual Expenditures

	FY2022 Actual	FY2023 Actual	FY2024 Actual	FY2025 Budget	% Change
Travel Expense	$22,731	$156,059	$152,432	$278,892	83%
Bonus	$8,883	$112,772	$65,500	$118,000	80%
Sponsorship	$754	$273,587	$121,151	$148,000	22%
Donations	-	$22,612	$31,251	$41,000	31%
Consultant/Contractual	$67,674	$67,847	$63,340	$295,000	366%

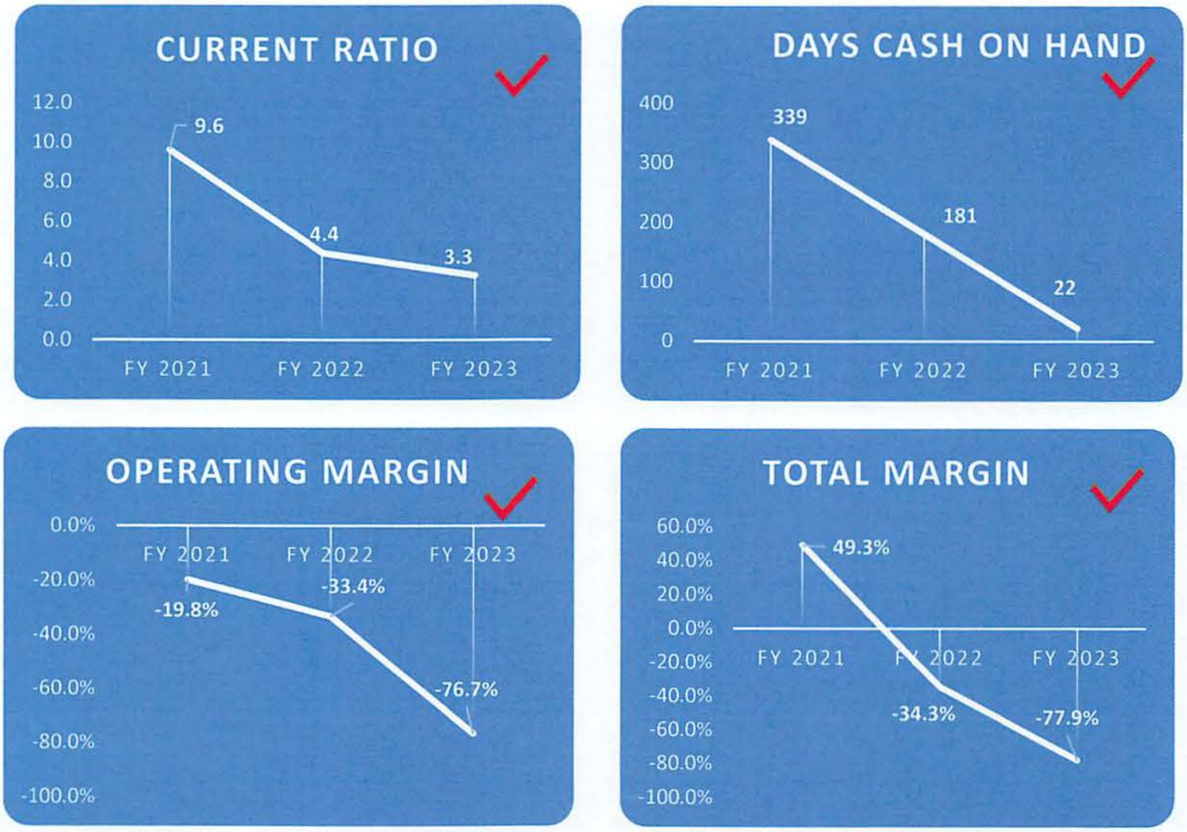
Table note: Percentages rounded to the nearest whole number.
Source: TAP Analysis based on NACE Budget and Financial Statements and General Ledger Reports.

The largest projected expenses in the CY2025 budget are:

- Inventory purchases totaling $8,015,000; the budget for purchases exceeds 2025 projected sales by $1 million, which could result in NACE carrying excess inventory, placing additional financial pressure on operations if the items are not received on consignment.
- Payroll totaling $1.9 million, which represents a decrease of 19.67 percent from CY2024 payroll expenses.
- Building repair and maintenance at the Chinle and Window Rock stores totaling $2 million.

As shown in Figure 4, the results of five key ratios that assess fiscal health of organizations show that NACE was below industry benchmarks for four of five fiscal health performance measures. The remaining one ratio, which shows NACE's ability to meet short-term obligations (Current Ratio) was above industry benchmarks although it had fallen 62 percent between CY2021 through CY2023.

Figure 4: NACE Fiscal Health



Source: TAP International Analysis based on NACE audited financial statements

Figure 4 notes:

Green checkmarks indicate increased performance and red indicate decreased performance.

Current Ratio: Tells you whether an organization can meet its short-term obligations using its short-term assets. A ratio of over 1.0 is desirable.

Days Cash on Hand: The number of days an organization can continue to pay its operating expenses using only its available cash and liquid assets, without any additional revenue. A value over 30 days is desirable.

Operating Margin: Ability to meet expenses with Operating Net Income. An industry target is two percent

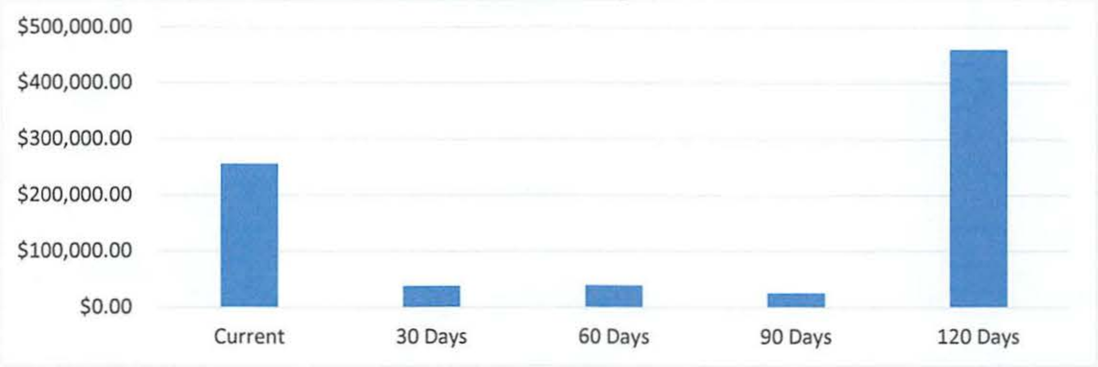
Total Net Income Margin: Ability to meet expenses with Total Net Income. An industry target is two percent.

Asset Turnover Ratio: Measures the efficiency in generating revenue from assets. A ratio over 1.0 is desirable.

In addition, since CY2021 NACE has steadily increased the number of days required to pay invoices when they are due. As of June 17, 2025, NACE had

$782,860 of outstanding accounts payable invoices, 56 percent or $450,713 of those invoices are over 120 days old because there is not enough cash in the bank to pay all outstanding invoices (17 vendors supporting NACE operations). See Figure 5. Not paying invoices in a timely manner increases the likelihood that vendors will either stop doing business with NACE or will increase the cost of products sold to NACE to offset the costs incurred because of the late payment of their invoices.

Figure 5: Accounts Payable Invoices Outstanding



Source: NACE accounts payable report, as of June 17, 2025

Lastly, without additional revenue sources in CY2025, NACE's projected operational loss will be $5.3 million. NACE's Board of Directors has approved a $12.3 million budget for CY2025, but NACE has projected only $7 million in sales for the year.

NACE Officials Identify Factors for NACE's Fiscal Condition

Multiple factors can be attributed to NACE's fiscal concerns. These include:

Excess Inventory Management. NACE officials reported that prior to the change in executive leadership, inventory was routinely purchased and shipped to the central warehouse. However, NACE at the time deferred the receiving process, resulting in shipping receipts not being forwarded to Finance for accounts payable recording or invoice payment. The merchandise remained unprocessed in storage for over a year, surpassing the allowable return window and triggering payment obligations. Under new leadership, NACE received the inventory, which significantly increased accounts payable. To mitigate the surplus, the merchandise was distributed to stores and sold at a discount. Unsold excess inventory continues to strain fiscal sustainability. While NACE could not specify the remaining volume of unsold 2021 inventory, they estimated approximately $1.5 million in excess clothing and apparel merchandise remains.

Delayed Cash Flow from Employee Discount Program. As a retail enterprise specializing in Native jewelry and arts, NACE's core sales program is the

Employee Discount Program authorized by Resolution AN-112-72. This program allows NN employees to purchase goods on credit, with a $600 to $1,500 annual limit and repayment via payroll deduction capped at $50 per month. While the program offers meaningful community benefits, it has contributed to delayed cash inflows. NACE reported that its accounts receivable turnover rate increased from 66 days in 2021 to 170 days as of May 2025—a 158 percent rise in the average time customers take to repay their balances.

Strategic Shift Toward Jewelry Sales. NACE officials emphasized that authentic Navajo jewelry remains the organization's strongest product line. In response, certain retail locations—such as Window Rock—were downsized to reduce apparel and non-jewelry inventory, allowing stores to focus more heavily on jewelry sales. This change in merchandizing strategy appears to have contributed to a decline in sales in CY2024.

As NACE shifted its focus to selling jewelry in recent years, silver prices have steadily increased. Net sales per store have also steadily dropped among most stores, as shown in Figure 6, placing added pressure on NACE's profit margin.

Figure 6: Net Sales by NACE Store

Store	CY22 Net Sales (in millions)	CY23 Net Sales (in mllions)	CY24 Net Sales (in millions)	% Change CY24 from CY22
ALL STORES	**$8,803,000**	**$8,233,000**	**$4,729,000**	**-46.28**
Shiprock	$1,472,000	$1,310,000	$472,000	-67.93
Chinle	$1,362,000	$1,124,000	$710,000	-47.87
Kayenta	$864,000	$820,000	$483,000	-44.1
Window Rock	$287,600	$2,983,000	$2,618,000	-8.97
Gallup	$897,000	$806,000	$304,000	Store is closed
Tuba City	$1,332,000	$1,124,000	$83,000	Store is closed
Crownpoint		$66,000	$59,000	Store is closed

Overall, all NACE stores experienced a decline in sales between CY2022 and CY2024. Net Sales fell from $8.8 million in CY2022 to $4.7 million in CY2024, a 46 percent drop. CY2023 was relatively stable compared to CY2022 (-6.5 percent), but the decline accelerated dramatically into CY2024, which indicates that while store operations were initially resilient in CY2023, CY2024 brought significant disruption.

At the store level illustrated in Figure 7, sales performance shows the following:

Chinle Store

Net Sales dropped 18 percent between CY2022 and CY2023 and another 37 percent between CY2023 and CY2024. Performance mirrored overall NACE decline. The results suggest intervention is required. This store is in a high tourist area and attention needs to be focused on diversifying its target customers.

Gallup Store

Net sales decreased 10 percent between CY2022 and CY2023 and declined further by 62 percent between CY 2023 and CY2024. This was one of the steepest declines among all stores, indicating severe vulnerability in market demand or local operations. NACE has since closed the store.

Kayenta Store

Net sales were relatively stable in CY2023 with a five percent drop from CY2022. Between CY2023 and CY2024, net sales fell 41 percent.

Shiprock Store

Net sales fell 11 percent between CY2022 and CY2023, then dropped 64 percent between CY2023 and CY2024. The severity of the decline shows possible reliance on a limited customer base or higher exposure to credit purchases, discounts, and returns.

Tuba City Store

Net sales dropped 15 percent between CY2022 and CY2023, then dropped again by 93 percent between CY2023 and CY2024, the most extreme decline systemwide due to the store closing.

Window Rock Store

The largest location by square footage and historically the highest revenue generator. Net sales increased slightly (+4 percent) in CY2023 from CY2022. Net sales then declined 12 percent from CY2023 to CY2024, making it the most stable store in the system. This stability suggests the Window Rock store remains the core driver of system revenue and may be less sensitive to external or internal changes.

Crownpoint Store

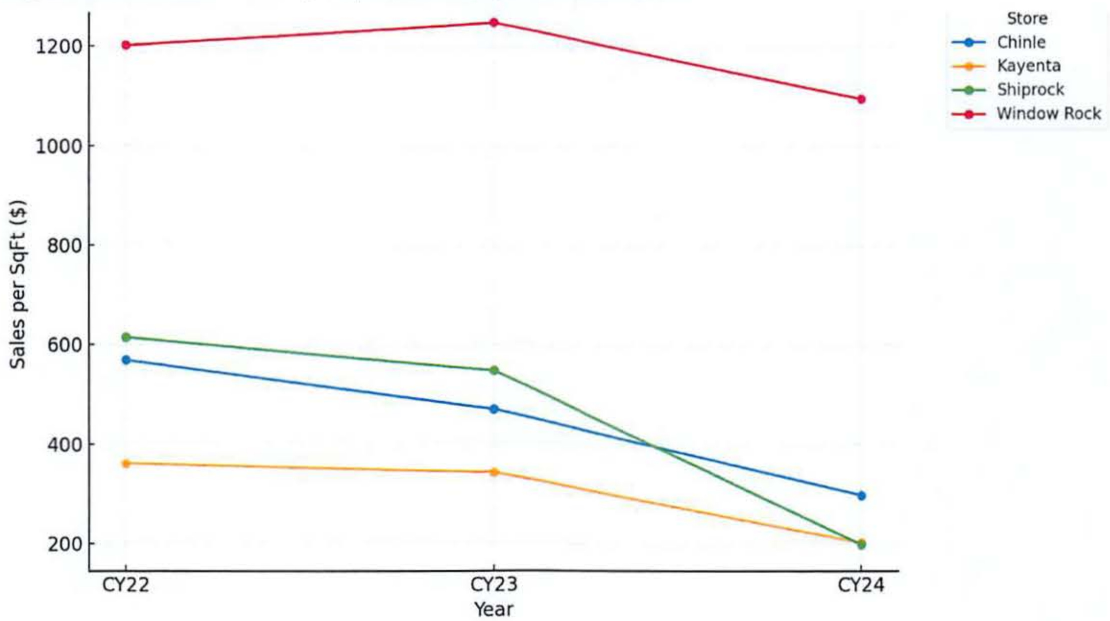
Newly opened in CY2023, net sales fell slightly from $66K in CY2023 to $59K in CY2024 (-11 percent), the store since closed.

Despite one anchor store (Window Rock), the majority of locations lost nearly half their net sales by CY2024.

To further verify the validity of our analysis, we examined net sales per square foot (SqFt), which is a critical efficiency measure in retail operations, showing how well each store converts space into revenue. Between CY2022 and CY2024, all locations experienced declines, as shown in Figure 7, underscoring systemic challenges. Chinle, Kayenta, and Shiprock stores all deteriorated far more severely between CY2023 and CY2024 than between CY2022 and CY2023. Shiprock lost nearly two-thirds of its sales efficiency by

CY2024. Although weakened in CY2024, the Window Rock store continues to outperform all other locations, suggesting that NACE operations are increasingly dependent on one high-performing store, while others are drifting toward inefficiency.

Figure 7: Store Sales by Square Foot, CY 2022-2024



Although NACE is projecting that CY2025 will be a much better year with an estimated $7 million in sales, in part, by advertising on social media, and increasing store inventory, our analysis determined that NACE's fiscal health challenges will continue without action, such as:

- Performing business planning
- Addressing exceptions and inefficiencies in core operational processes
- Addressing limited management-level skill sets
- Hiring a Finance Director or Chief Financial Officer with formal accounting and finance expertise

These issues are further detailed under Finding 2.

FINDING 2: KEY BUSINESS ACTIVITIES AND TOOLS NEED DEVELOPMENT OR ENHANCEMENT

Retail operations are all activities involved in running a physical or online store. To ensure success in the competitive retail landscape, best practices for retail operations should be relied upon. In multiple areas, NACE can either enhance specific areas of best practices or implement new processes and tools, as illustrated in Figure 8 below.

Figure 8: Retail Operations Best Practices

Best practices	TAP Assessment of NACE Activities	NACE activities
1. Clear policies and procedures for all aspects of store management, from inventory control and cash handling to customer service and merchandising.	Needs improvement	NACE hired a financial consultant to help strengthen financial management activities and internal controls.
2. Emphasizing timely reconciliation of accounts, rigorous internal controls for purchasing and payables, and consistent staff training promotes accountability and operational transparency.	Needs improvement	NACE hired a financial consultant to help strengthen financial management activities and internal controls.
3. Implementing effective marketing strategies.	Needs improvement	Data is not available to assess performance.
4. Perform regular assessment of store performance.	Needs improvement	Limited metrics are captured; other key metrics are needed.
5. Be responsive to customers.	Needs improvement related to vendor payment Needs improvement related to sales customer feedback	NACE conducted two customer surveys that identify concerns of high prices on items that NACE needs to address.

6. **Benchmarking of operations.**	Needs improvement	Limited metrics are captured; other key metrics are needed.
7. **Continually seek improvement to optimize efficiency, enhance customer satisfaction, and strengthen financial stability.**	Satisfactory	NACE has tried multiple strategies to increase sales.

Source: Harvard Business Review, American Marketing Association, US Green Book.

Added attention to these targeted best practice areas can help increase operational revenue and accomplish cost reductions.

Effectively operated retail businesses also need strategic or business plans, marketing plans, key performance measures that are tracked monthly, staff optimization, a robust set of internal controls, and effective communication processes. The information from these business tools provides critical guidance to staff for daily operations as well as external stakeholders on how the business is achieving operational goals.

NACE Developed A Strategic Plan Although Goals Have Not Yet Been Accomplished

NACE has a documented 2025 strategic plan in place with the following strategic priorities:

1. Cultural brand leadership: Strengthen and elevate the Navajo brand nationally and globally.
2. Operational excellence: Enhance productivity, systems, and interdepartmental coordination.
3. Digital and Retail Modernization: Revamp e-commerce and store experiences.
4. Financial Stability :Improve fiscal health, reporting, and long-term planning.
5. Community and Artist Engagement: Deepen relationships with artists and the Navajo Community.
6. Human Capital Development: Invest in staff, training, and leadership succession.
7. Policy: Update board approved policies that align with the current items of the enterprise.

The success metrics include:

- Sales Growth: Target $7 million in revenue with steady quarterly increases
- Grant Funding: Secure at least three major grants
- Website Traffic: Increase GoNavajo.com traffic by 100 percent year-over-year

- Production Output: Launch and scale exclusive NACE product lines
- Customer Accounts: Increase PCA utilization and retention rates by 20 percent
- Employee Development: Complete cross-training in all departments by quarter 4

While these metrics offer an initial step towards assessing performance, key metrics for NACE are needed throughout the enterprise, including retail operations, such as:

- Sales per square foot,
- Average sales generated per customer,
- Number of customers entering stores,
- Return on investment per marketing activity
- Sales metrics on popular items by store; average length of time on store shelf before purchase, and,
- Real time information pertaining to value of inventory on hand

Without consistent documented key performance measures, the executive team will be unable to determine if NACE has met its strategic goals. Based on program information and interviews conducted by the auditor, we determined that NACE has not yet completed the seven priorities it established.

Our analysis identified that the strategic roadmap with quarterly goals does not clearly align with the strategic priorities. The strategic plan also does not include actions to identify how NACE will accomplish its strategic priorities during CY2025, as follows.

- The Department section of NACE's Strategic plan describes a sales goal of achieving $7 million or more in revenue through progressive quarterly increases and setting individual store targets. However, there are no action plans on how that will be accomplished. As of July 31, 2025, store sales are at $3.1 million of the $7 million goal. It is possible for the stores to achieve the goal set for them, but it is more effective to identify and focus on specific goals such as increasing the customer conversion rate[5] at each store by training staff in suggestive[6] or consultative[7] selling techniques.

- The Strategic Plan includes the Digital and Retail Modernization priority to

[5] Customer conversion rate is measuring the number of customers who visit a store and buy product, or the number of visitors to an e-commerce site that purchase product compared to the number of visitors that visited and did not buy anything.
[6] Suggestive selling techniques is a sales technique where a sales associate recommends additional or complementary products or services to a customer during purchase.
[7] Consultative selling techniques centers on understanding a customer's needs and providing tailored solutions.

revamp e-commerce. There are two quarterly items addressing this priority: the quarter one list identifies the relaunch of GoNavajo.com and the quarter two list identifies growing digital marketing and driving store/web traffic. The online purchasing program through Go Navajo.com has not yet been accomplished due to unanticipated delays in the relaunch because of issues related to access rights of the website. We could not determine if NACE met its goal to grow digital/social media marketing and store/web traffic because targets to assess progress have not been established or measured.

According to the CY2025 NACE Strategic Plan, the GoNavajo.com website is planned for relaunch in first quarter of 2025. The NACE officials explained delays have occurred because of an access rights issue on the GoNavajo.com website, reporting that the former Executive Director maintained access to the website and NACE has been working to assume control of the domain name.

Relaunching a retail e-commerce website is a complex process involving multiple moving parts, requiring a knowledgeable project manager and a dedicated team. A written project plan that covers:

- website optimization,
- security and privacy issues,
- physical logistics covering ordering through shipment,
- a production plan with adequate staffing to design and make jewelry,
- a dedicated secure area to store, fulfill orders and ship product,
- a marketing plan covering initial roll-out and marketing targets and goals for increasing website traffic and customer conversion rates is essential.

In addition, designing the website, updating website pages, integrating secure payment methods, and setting up shipping and fulfillment logistics, need to be included in the implementation plan, with a thorough beta-testing plan before the website goes live. If even one of these areas is not well thought out and documented in a comprehensive plan, then the likelihood of the relaunch being successful is problematic. A detailed website relaunch plan has not yet been developed.

Most of the departments that should be involved in discussions with the relaunch do not have documented plans in place for their area of expertise and are unaware of the status of the website relaunch. For example, there needs to be a dedicated area to store, fulfill and ship online orders, but no plans have been made. Also, the Production staff need to produce jewelry specifically for online ordering, but they currently are short of several staff positions that NACE has had difficulty filling and cannot currently meet merchandizing demands at the four retail stores. Further, NACE has not prepared a specialized marketing plan that identifies how traffic will be driven to purchasing items online, especially when only about four percent of NN residents have basic Internet access.[8] In addition, there are no staff in place that have the ability, resources and time to keep the pages continuously updated with available products. Without a detailed project plan that addresses all these areas, the likelihood of a successful relaunch of GoNavajo.com has a much higher risk. Poorly executed launches of websites in the past have had a long-term negative impact on the retail business involved.

NACE Needs a Robust Marketing Plan

A marketing plan is essential for businesses because it provides a roadmap to achieve marketing goals, ensures efficient resource allocation, and helps adapt to market changes. It clarifies objectives, guides strategy, and enhances consistency, leading to better results and long-term sustainability. An effective marketing plan will usually contain the following elements:

Marketing Plan Section	Elements to Include
Target Audience	What are your customer demographics What are your customer preferences What are customer shopping habits What are the results of market research What is your customer retention rate
Clear Marketing Goals and Objectives	How will you increase foot traffic (be specific) What is your plan to boost online sales What are marketing's action plans to improve customer retention
Online Marketing	Is website optimized What is the Social Media marketing plan Which Social Media platforms are the most effective for the business What is the email marketing plan What digital advertising will be done on what platforms What are plans for Influencer Marketing How will search engine optimization (SEO) be achieved
Offline Marketing	In-Store Promotions

[8] Narrowing the Digital Divide in the Navajo Nation, US Telecommunications and Information Administration, US Department of Commerce

	Local Partnerships, i.e. Hotels, Museum, Tour companies, Chamber of Commerce Events and Workshops Planned Word of Mouth marketing - encourage customer referrals and positive reviews
Compelling messaging and branding	What needs to be done to create a strong brand identity What consistent messaging needs to be crafted Highlight unique selling points, emphasize what makes NACE different and include in marketing messages Identify why customers should choose NACE One possible branding idea, would be to create a certificate of authenticity for NACE production jewelry that would be given to customers buying exclusive lines
Track Key Metrics	Monitor website traffic, sales data and social media engagement Create monthly reports on key metrics and share with Executive Team to develop monthly action plans.
Analyze Results and Make Adjustments	Adjustments to the next month's action plans for the Stores, Production, Marketing and Purchasing should be discussed and jointly agreed to, so that NACE has a coordinated approach to achieving its overall goals
Stay adaptable and innovative	Consistently research competitors, and e-commerce and retail trends, adapt the marketing plan to stay innovative and in-line with changing customer needs.

Source: American Marketing Association

NACE has implemented notable marketing events to help brand NACE as a seller of native jewelry. These events include the sponsoring of the 2025 NACE beauty pageant, sponsoring artisan workshops, and posting multiple announcements on multiple social media. Although a standard marketing practice is to conduct return on investment analyses, NACE has not prepared this type of analysis to assess the financial and merchandizing impact of these activities for future decision-making to discontinue or continue these activities but does track gross revenues received,

Despite these efforts, a comprehensive marketing plan is needed, especially how NACE will accomplish its priorities to increase store traffic and expand social media followers.

NACE's marketing activities could benefit from other standard performance measures necessary to determine which marketing activities are successful and those that are not, and to assess the return on investment. For example, NACE could use metrics on the number of persons visiting each store. While this initiative was implemented in the past, the activities are not consistently documented and analyzed. Without consistent information, it is not possible to evaluate useful metrics including average sale per customer, or forecast sales by quarter by the number of expected customers based on historical data. The data presently tracked is the sales revenue generated when outdoor markets occur.

Staff Training Programs Need Development

Recently NACE, in response to available cash and in an attempt to reorganize operations, had placed a hiring freeze on operations that was recently lifted, and had downsized the number of positions 34 percent to a staff level of 58 in 2024. As of July 31, 2025, NACE had 14 vacant positions.

To address key position vacancies, NACE has reassigned staff from within the enterprise or hired them from other Navajo departments to fill positions. The NACE CEO explained that prior experience and skills set were considered in filling the vacant positions. Despite establishing these criteria, staff hired for the positions of marketing manager, procurement manager, finance director, inventory manager and prior Accounts Payable (AP) clerks have had no direct work experience in their new area of responsibility and face a steep learning curve to effectively complete their job responsibilities. In the absence of having sufficient experience, the impact on NACE is significant. For example,

- In the case of the Accounts Payable Clerk, Form 1099-MISC's were not filed timely with the Internal Revenue Service
- Purchases have been made using anecdotal data without adequate marketing research and sales forecasts supporting the decisions
- Absence of knowledge of how to manage inventory in an e-commerce environment
- Absence of marketing plan, including return on investment analysis

NACE, in recognition of the need to have better financial leadership, has plans to recruit and hire Chief Financial Officer, but a deadline has not been set for the hiring.

NACE as well as other departments like the Office of the Controller has challenges in recruiting specialized skilled positions, especially those that require advanced degrees and certifications, so a consistent training program for all staff and comprehensive documented policies and processes takes on greater importance to mitigate the risk of placing staff into key positions without the required skill sets or backgrounds. Our review found that none of the staff reassigned to new positions have received training to effectively perform their responsibities. Training programs should also include the participation of long-time staff in existing positions to retrain them on new process requirements and teach new skillsets.

Internal Controls Over Some Aspects of NACE Operations Need Strengthening

Management is responsible for developing, implementing and monitoring an internal control system. Internal controls are policies, procedures, processes, activities, reporting and monitoring that when present and working effectively serve as a critical line of defense to ensure efficient and effective operations and reduce fraud, waste and abuse. An effective system of internal control demands more than rigorous adherence to policies and procedures; it requires the use of judgement. Management and Boards of Directors use judgement to determine how much control is enough. Management and staff use judgement every day to select, develop and deploy controls across the organization.

Released in 1992 by the Treadway Commission, the COSO Internal Control Framework is a universally accepted internal control framework in the United States. The framework provided a common definition of internal control and a system for organizations to design, implement, and assess the effectiveness of their internal control systems. It outlines five key components of internal controls: control environment, risk assessment, control activities, information and communication, and monitoring activities.

The framework has evolved over time and has developed into a widely used tool for establishing and maintaining effective internal control systems to support accurate reporting, compliance, and overall organizational objectives.

Our review compared policies, procedures and existing practices to the COSO Internal Control Integrated Framework. Appendix A includes the key components of the COSO Framework of Internal Controls and describes 20 current gaps or other deficiencies in control best practices currently implemented by NACE. These gaps in internal controls govern accounts payable activities, purchasing, and financial management and primarily involve gaps in internal controls that need to be documented based on existing policies and procedures, or the need to ensure proper segregation of duties over purchasing.

Presently, the interim Finance Director has no prior experience in financial management and accounting and concurrently performs other managerial roles within NACE. The CEO contracted with a financial consultant to assist with updating existing policies and procedures with a planned completion date of year end 2025, and to provide services to support the preparation of audited financial statements.

Another set of internal controls that we examine were physical security controls. Physical security controls are tangible measures designed to prevent unauthorized access to facilities, equipment, personnel, and resources, and to protect them from damage, theft, or harm. Examples of these controls include:

- Barriers: fences, walls, cages
- Access restrictions: locked doors
- Surveillance: CCTV cameras, motion detectors
- Personnel: security guards, reception checkpoints

Although NACE has experienced some theft based on its inventory reports, we did not identify exceptions to these controls at the NACE warehouse and nearby structures. Appropriate fences were installed, locked safes were in use, all non-public access doors were locked, and CCTV cameras were visible. At the Window Rock store, security guards were visible and customer service staff were positioned in plain view of display cases to deter potential theft. At the store exit, staff through an adjacent office can monitor customers entering and exiting the store.

FINDING 3: IMPROVEMENT OPPORTUNITIES IDENTIFIED AMONG SELECTED PARTNERS

NACE has multiple partners to support and provide advisory services for its operations. These include: its Board of Directors, artisans, vendors, and several NN departments and commissions, such as the Tourism Bureau and Division of Economic Development.

Our examination focused on satisfaction among NACE artisans and vendors, and on governance provided by the Board of Directors, and identified opportunities for improvement. The seven artisans and vendors who participated in our survey, among the 30 who were contacted, reported mixed satisfaction, ranging from low to high. Two vendors reported low satisfaction, two reported moderate satisfaction, two reported high satisfaction of NACE operation, and one declined to respond to our question. Artisans commented that NACE can do better at marketing their merchandise and faster payment of invoices submitted for payment.

We further examined NACE's activities related to the strategic goal of promoting NN artisans and determined NACE's collaboration spans the whole artist lifecycle. These include sponsoring workshops at local high schools, store events that invite local artisans to conduct presentations of their art and hosting an inaugural art market with over 50 vendors. NACE's recent RDC brief presented additional plans to administer apprenticeships, materials infrastructure, and co-ops. We could not assess the impact on goal accomplishment or sales revenues related to these activities, because NACE does not perform return on investment analysis, examining sales revenue earned as a direct result of the activities against experience incurred. Without this information, we also could not assess NACE's performance at adding or maintaining artisans as vendors for NACE.

More can be done to promote artisans and their merchandise through other retail stores, tour companies, hotel gift shops and local casinos. NACE's website can also provide videos of store events and information about its artisans on its website.

More can also be done to assess the success of the artisans doing business with NACE. NACE can benefit from information on the percentage of merchandise purchased and sold by artisans and data on the number of new artisans doing business with NACE on a year-to-year basis.

Governance Structure of the NACE Board of Directors Needs Attention

Board governance can be an effective tool to the success and sustainability of an organization that, if administered effectively, can provide the framework for effective decision making, accountability, transparency and risk management, ultimately guiding NACE towards its strategic objectives. A well-governed board fosters trust with stakeholders and enhance the organization's reputation. Without effective Board governance, decision making becomes impaired and a Board's fiduciary responsibility becomes risky.

Organizationally, the NACE Board members have remained unchanged. Each serve four-year terms of continuous appointment unless a resignation occurs or the NN's President opts to appoint new members. In over 10 years, there has not been a new Board member, and one current Board member position remains vacant. This position is generally filled by a member of the RDC, which in its Spring 2025 meeting reported that it had not been aware that the position remains vacant. In August 2025, the RDC appointed and confirmed a new Board member.[9]

Operationally, the two NACE Board members interviewed expressed high levels of satisfaction with current NACE executive management, explaining that performance goals established relating to better communication and transparency between NACE and the board, have been met, exceeding past level of efforts in these areas by former NACE executives.

Nonetheless, our review identified that the current Board of Directors is not structured to receive all the information it needs to have its own effective

[9] The RDC has authority to fill vacant positions on the NACE Board of Directors if the NN President does not appoint a new member after 60 days of its vacancy.

decision-making process. For instance, there are no Board resolutions governing the budget review and approval process. Without requirements for an enterprise-wide line-item budget, the budget presentation to the Board will not be consistent for the Board to make informed decisions. In CY2024 and CY2025, management did not include estimated sales and other projected revenues in the annual budgets presented to and approved by the Board. In CY2025, projected revenues from store operations were estimated at $7 million but the Board of Directors approved a CY2025 budget of about $12 million. While the CY2024 budget board report appropriately included a detailed line-item budget at the department level for the board to approve, the same budget report for CY2025 included only a summary level budget at the enterprise-wide level without an overall line-item budget for the Board approval. As a result, there is a $3.2 million discrepancy between the Board approved summary budget and our analysis of the various NACE departments' CY2025 line-item budget. The CY2025 summary budget that the board approved does not appear to include any of NACE's projected CY2025 payroll and payroll related expenses or the Executive department's CY2025 projected expenses.

In addition, the Board of Directors should consider a resolution that requires NACE to maintain a cash-on-hand amount that covers at least three to six months of expenses. In CY2021, NACE maintained a cash balance that covered 321 days of cash-on-hand. In CY2022 this decreased to 169 days of cash-on-hand and in CY2023, the cash-on-hand metric further decreased to 21 days. Smaller retail operations should, if possible, hold at least 91 to 182 days of cash-on-hand. Setting a Board resolution requiring the CEO to report quarterly on the available cash, will provide the Board with valuable information that will assist in their oversight responsibilities of the NACE operations.

OTHER ISSUES

Administration of Employee Salary Bonuses and Vendor 1099 Reporting Is Non-Compliant With Internal Revenue Service Regulations

NACE and its Board of Directors allow for bonuses to be paid to its employees for those that have met or exceeded performance expectations. It is reasonable to assume that bonuses are paid within organizations if additional funds are available. Bonuses are an excellent management tool to encourage staff retention and motivate personnel.

The Board of Directors has approved employee bonuses for key executive management and staff who have met performance expectations despite NACE having an operating deficit for the last several years. In 2023, 31 employees received likely bonus payments.

As shown in Figure 9 below, the minimum payment made was $200 that occurred in CY2023 while the maximum paid was $40,000 to NACE's Chief Executive Officer (CEO). This same position received a $50,000 bonus in CY2024, and in CY2025 received two bonuses 30 days apart, totaling $118,000. In 2024, some NACE staff received bonuses and information on staff bonuses in 2025 was not available. The Board President explained that the CEO's bonuses were awarded because the Board priorities at the time were to accomplish better transparency and communication between the Board and the Executive Management, which were subsequently translated to performance goals, and met by the current Executive Director. There was no financial management/revenue target goal established.

Figure 9: Employee Bonuses Paid, CY2023

Year	# of Employees Identified Receiving a Potential Bonus	Minimum Employee Bonus Paid	Maximum Employee Bonus Paid	Total Likely* Bonuses Paid
2023	31	$200	$40,000	$80,790

*Bonus information was extracted from 1099-MISC forms that for some employees, we could not reconcile to the Accounts Payable ledger.

Fiscal prudence and effective internal controls suggest that policies and procedures should be established identifying the requirements for paying bonuses that include budgetary constraints. NACE has not established its own procedures for the awarding of bonuses or related administration regarding their pay-out and has awarded bonuses despite substantial financial losses.

When processing the approved bonuses over the last several years, NACE did not administer them to ensure compliance with federal tax law. Employee bonus payments should be processed through NACE's payroll system, subject to payroll taxes and reported in a W-2 statement. Instead, NACE recorded the bonuses as an Accounts Payable payment and reported it using Internal Revenue Service form 1099-Misc.

NACE's current practice of issuing Form 1099-MISC violates Internal Revenue Service requirements for employee compensation. According to Internal Revenue Service Guidelines on additional compensation payments reported on Forms 1099-MISC, when bonuses are paid to employees for services performed as an employee, the bonus payments are considered additional wages subject to employment taxes. These payments are required to be reported to the Internal Revenue Service on a W-2 form not a Form 1099-MISC. 1099-MISC forms are commonly used for subcontractors, independent consultants, and vendors.

According to the Internal Revenue Service, penalties for misclassifying employee expenses as 1099-MISC can be severe. Penalties that NACE may have to pay include 1.5 percent of wages paid that were not reported on the W-2, 40 percent of the employee's share of FICA (Social Security and Medicare) taxes, 100 percent of the employer's share of FICA taxes and a failure to pay penalty of 0.5 percent per month up to a total of 25 percent of the total tax liability.

In addition, at the time of our review, NACE did not file the required Form 1099-MISCs for its vendors paid in CY2024. Information returns such as Form 1099-MISC are required to be sent into the Internal Revenue Service no later than February 28th if paper filing, or March 31st if e-filing. Based on interviews with staff, as of August 6, 2025, the CY2024 Form-1099-MISC's were sent to vendors but have not been sent to the Internal Revenue Service. According to the Internal Revenue Service, the penalty for filing Form 1099-MISC after August 1st is $330 for each late 1099 statement plus interest.

In CY2024, over 100 Form 1099-MISC's were filed with the Internal Revenue Service for CY2023 payments, depending on the number of 1099-MISC's that were not filed timely in CY2025, the late filing penalty could exceed $33,000 plus interest.

The factors contributing to these non-compliance issues related to bonuses and 1099 filings for vendors include:

- Issuing a check via accounts payable rather than a payroll check coupled with the absence of clearly defined policies and procedures on how to administer bonus payouts.
- Lack of a documented process and staff turnover appear to have caused the untimely filing of the CY2024 vendor 1099 returns to the Internal Revenue Service. Since the end of CY2024, there have been at least three individuals that have worked as the Accounts Payable Clerk for NACE, the current individual has been in the position less than a month.

- There are no documented procedures regarding completing or filing Form 1099-MISC's to provide instructions on completing this process and the required deadlines.
- There was a change of staff in the Finance Manager position. The current individual is the interim Finance Manager, who does not have work or educational background in accounting and finance.

Effective Communication Is a Key Tool to Drive a Healthy Organizational Culture

Effective communication is foundational to a healthy organizational culture, fostering trust, transparency, and alignment across all levels of staff. NACE and Board officials discussed organizational culture issues at NACE. The CEO has voiced his commitment to healthy communication and meets regularly with his management team to discuss current operations and future initiatives. While NN personnel rules do not require the use of non-disclosure agreements (confidentiality agreements), NACE requires its employees to sign them, creating a disconnect between facilitating a healthy organizational culture and employee perceptions.

NACE's use of confidentiality agreements raises questions about NACE's organizational transparency and openness. We determined that its use risks undermining the collaborative culture NACE aims to cultivate and hinder organizational morale. NACE officials explained the confidentiality agreements serve to protect NACE business information from departing employees and to prevent the disclosure of employee bonuses.

APPENDIX A: INTERNAL CONTROL FRAMEWORK WITH RECOMMENDED ACTION

Management is responsible for developing, implementing, and monitoring an internal control system. Internal controls are policies, procedures, processes, and activities that when present and working effectively serve as a critical line of defense against fraud, waste, and abuse.

The COSO Internal Control Framework guides organizations in relevant aspects of governance, business ethics, internal control, business risk management, fraud, and financial reports. We analyzed the sufficiency of NACE's internal control framework, as shown Figure A1, and identified 20 areas across financial management and store operations that need attention.

Figure A1: Assessment of NACE Internal Controls

NACE DEPARTMENTS	
Accounts Payable	
Gaps/deficiencies in Internal Controls Best Practices	Recommended Action
1. No documented process to check for duplicate invoices prior to payment.	Document the process to verify that invoice received and paid are not duplicates.
2. No documented process to resolve exceptions when discrepancies occur between the invoice, purchasing order and receiving report; missing support; or inappropriate approvals	Document the process regarding resolving payment and purchasing discrepancies.
3. Current draft Accounts Payable and Operating Expense policies and procedures on page 1 of 2 states: "*AP Clerk inputs, Sr. management reviews, codes invoice and moves to approved folder for AP Clerk to process. CEO approves for payment; the AP Clerk then goes into bank online to pay.*" There is an internal control gap between the CEO approving payment of invoices and AP Clerk using	A final verification process by senior management in the online banking system needs to be added. If the system does not allow this, then implement a mitigating control to have the AP Clerk send the CEO and Finance Director a report from banking system confirming what was paid, which is compared to what the CEO approved to pay.

online banking to pay, and there is no oversight on what is actually paid by AP online	
4. No documented process on check voiding.	Document the process regarding check voiding.
5. No documented process for check review and approval.	Document the process regarding check review and approval.
6. No documented process how check mailing.	Document the process regarding check mailing.

Finance	
Gaps/deficiencies in Internal Controls	Recommended Action
7. No documented procedures for management review and approval of bank reconciliations, which should be performed timely, reviewed by an individual other than the preparer. Reconciling items identified should be resolved within one accounting period. Reconciling items on both bank accounts were rolled forward for several months without resolution.	Document the requirement that all bank reconciliations require management review and approval. Document the requirement that all bank reconciliations be completed timely each month. Document the requirement that all reconciling items be resolved within one accounting period.
8. There are no policies that cover all aspects of managing cash. Some policies and processes are in draft, but the entire cash management practice has not been documented, reviewed and approved by management.	Complete a comprehensive cash management policy and process that documents receiving cash and credit cards, depositing in the bank, verification by Finance of deposits in bank to daily sales reports and resolving of discrepancies.
9. No documented process on check voiding.	Document the process regarding check voiding.
10. No documented process for check review and approval.	Document the process regarding check review and approval.
11. No documented process on check mailing.	Document the process regarding check mailing.

Purchasing	
Gaps/deficiencies in Internal Controls	Recommended Action
12. No documented procedures for review and approval of new vendors and changes to key vendor information.	Document the approval process for new vendors and changes to existing vendor information in written policies and processes.
13. Absence of segregation of duties for ordering, receiving and payment for purchasing jewelry. The Purchasing Manager is solely responsible for cashing a check, going to the Fair, purchasing jewelry, and bringing left over cash and purchased jewelry to store. The warehouse then picks up jewelry, the Purchase Order and cash left over are sent to the Accounts Payable Clerk and Finance to document the transaction.	Prohibit the Purchasing Manager from issuing cash or checks to artisans and document a better segregation of duties for ordering merchandise, receiving merchandise and payment of merchandize in a formal policy and process, that includes Finance issuing and delivering checks to vendors and artisans, and additional signatures by Finance Director and/or CEO on documents before merchandise related payments are processed by Finance.
14. Currently, the Purchasing Manager has check signing authority. This is another segregation of duties internal control issue. The Purchasing Manager picks up the check book and purchases and pays for items from artisans that come to the Window Rock store with their product.	Document this practice in a formal policy and process, that includes mitigating control such as additional signatures by Finance Director and/or CEO on documents before transactions are processed by Finance.
15. Currently, the Purchasing Policy and procedure has no written dollar limitation on manual purchase orders.	Document the dollar amount limits on individual manual purchase orders and the required approvals in a written policy and process. Include a written pre-approval for total weekly transaction amounts shown on manual Purchase Orders.
16. Voided Purchase Orders do not have a documented process and a required retention timeframe.	Document the process for voiding purchase orders and the time required to retain the voided Purchase Order in the files.

Store Operations		
	Gaps/deficiencies in Internal Controls	Recommended Action
	17. No documented policy and procedures for voids and returns, including their review and approval.	Develop written policies and procedures regarding voids and returns.
	18. Shoplifting policies are not documented.	Develop written policies and procedures regarding store shoplifting policies.
	19. Staff are not trained in fraud prevention techniques.	Develop written policies and procedures regarding fraud prevention techniques including required periodic staff training.
	20. Store Operations policies need updating to include training.	Update Store Operations policies and training materials; periodically train sales staff on customer service requirements.

APPENDIX B: ASSESSMENT OF NACE MARKETING ACTIVITIES

Marketing and Sales		
	Best Practice	Recommended Action
	1. Formal outreach to attract new vendors	Marketing and Purchasing should work together to develop a written marketing campaign with key performance measures to attract new artisans to do business with NACE.
	2. Multi-media marketing	Collect customer emails on credit approval forms and send personalized emails with promotions, updates and offers.
	3. Partner with relevant influencers to reach a wider audience and build brand awareness	Consider partnering with NN social media influencers that are not artists to gain a wider distribution of NACE's brand.
	4. Collaborate with non-competing businesses to expand marketing efforts	Consider displaying NACE brochures at nearby hotels with an introductory discount or other promotion.
	5. Develop a website marketing plan specific to marketing online. Include plans for Search Engine Optimization (SEO), which is the practice of improving website visibility in search engine results pages.	Consider creating blog posts, articles and other engaging content to attract potential customers and establish NACE brand as an authority on authentic NN jewelry.
	6. Store signage and displays	Store signage at Window Rock is not optimal for a busy highway. By the time new visitors see it, they are past the store. Consider a larger and well-lit sign. There is no signage in the store, directing people into the clothing area in the back, consider having a mannequin dressed in NN textiles directing people or tourists to the back area.
	7. Store foot traffic	Consider repurposing the unused floor space at the Window Rock store to attract locals to the store on a regular basis. NACE could set up tables and some comfortable chairs for individuals to work on pre-packaged, easy to construct jewelry or other craft type items. Including these packages at the store could help sell raw materials, give people a place to meet and network, and make the unused space productive again.
	8. Excellent customer service	Regular training of staff including tips on suggestive selling, and other selling techniques

		are essential to increase sales. Consider friendly competition between stores and compare which store can increase sales by the highest percentage in a given period. Post graphics at the back of each store showing all stores progress and provide weekly training and suggestions to improve sales techniques.
	9. Loyalty programs	New website should include a loyalty or Very Important Person (VIP) program.
	10. Customer data analysis	Customer purchase behavior should be included and updated in the marketing plan to adjust marketing campaigns.
	11. Track Key Performance Measures	Final written policies and processes should include all key performance measures required to be completed by each department and the timeframe for measuring the data, i.e. daily, weekly, monthly or annually.
	12. Social Media Marketing	Marketing is currently using Facebook, Instagram, and TikTok, but could expand to Yelp to help local visitors locate stores, as well as interest. Posting of tutorial videos could help sell craft kits and attract viewers to purchase raw materials. Current interaction on Social Media is one-sided with NACE posts pictures, flyers, and videos but NACE does not respond to public comments or public questions. Best practices regarding social media success require engaging with your followers. At a minimum, any question or negative feedback should be promptly and courteously responded to.
	13. Optimize Google Business Profile	Determine if NACE has optimized a Google Business Profile and is actively managing it.
	14. Capitalize on uniqueness of product	Consider developing a certificate of authenticity with the NACE logo imprinted on it. Provide it to customers that purchase production jewelry and other specialty items. Because NACE is currently 84 years old, consider planning special celebrations and promotions. Contests for its 85th birthday celebration could be a month long or an entire year of events.
	15. Develop and regularly update a marketing plan	Marketing campaigns should be developed that meet specific goals and objectives in the marketing plan. Marketing plans and campaigns should be coordinated, and completed with

		Store Operations, Purchasing and Production's input, so that all departments are working toward common NACE goals.

APPENDIX C: ACKNOWLEDGEMENTS

TAP International would like to thank management and staff from NACE and NACE Board members for their assistance during this audit.

APPENDIX D: NACE COMMENTS AND CORRECTIVE ACTION PLAN

Please see the following pages.

October 6, 2025

TAP International
117 East Colorado, Suite 600
Pasadena, CA 91105

Good Afternoon,

I hope this letter finds you in good health and spirits. Navajo Arts and Crafts Enterprise (NACE) have reviewed and accepts the findings from the audit that was conducted by TAP International, Inc.

We have attached the corrective action plan, and if you have any questions or concerns, please do not hesitate to reach out.

Ahéhee' (Thank you)

Sincerely,

JT Willie, MPA
Chief Executive Officer
Navajo Arts and Crafts Enterprise

Corrective Action Plan: Three-Year Marketing Plan Development

Issue/Objective	Corrective Action	Responsible Party	Timeline	Outcome
Formal marketing planning	Form a cross-functional marketing task force to oversee plan development	Marketing Manager	Week 1 (Commence week of October 13, 2025)	Task force established and meeting schedule created
Define objectives and strategies	Conduct a strategic planning workshop to define 3-year objectives and core strategies	Marketing Task Force	Weeks 2–3	Documented objectives and strategies approved by leadership
Clear target audience segmentation	Perform market research and customer segmentation analysis (demographics, psychographics, buying behavior)	Marketing Analyst	Weeks 4–6	Segmentation report finalized and incorporated into the plan
Budget allocation process	Develop a detailed budget aligned with strategies (traditional + digital)	Finance & Marketing Manager	Weeks 7–8	Approved marketing budget with line items for each initiative
Measurable performance indicators	Define KPIs (e.g., lead generation, customer acquisition cost, retention rates, ROI)	Marketing Manager	Week 9	KPI framework documented and linked to reporting system
Digital and traditional integration	Outline combined strategy including social media, SEO, paid ads, events, and print media	Marketing Task Force	Weeks 10–12	Draft plan includes both digital and traditional channels
Customer base growth initiatives	Identify and design targeted campaigns (referral programs, promotions, partnerships)	Marketing Manager	Months 4–6	Campaign calendar created with growth targets
Monitoring and reporting structure	Establish monthly review process and quarterly progress reports	Marketing Manager	Month 3 and ongoing	Regular reporting to leadership; adjustments made as needed

Corrective Action Plan: Implement Intervening Sales Strategies

Issue/Objective	Corrective Action	Responsible Party	Timeline	Outcome
Develop turnaround strategies for Chinle, Kayenta, and Shiprock stores	1. Conduct a SWOT analysis of each location. 2. Identify customer needs and preferences via surveys and sales data. 3. Create tailored turnaround plans (pricing, promotions, store layout improvements).	Regional Manager, Store Managers	30–60 days	Completed turnaround strategy plans approved by leadership.
Monitor sales and sales per square foot monthly	1. Establish sales tracking dashboards. 2. Review sales and foot traffic monthly. 3. Share performance reports with management.	Finance & Store Managers	Ongoing (monthly)	Monthly reports delivered; trends documented and reviewed.
Expand merchandise variety based on forecasts	1. Perform detailed sales forecasting. 2. Identify underrepresented product categories. 3. Pilot expanded merchandise in select stores. 4. Measure sales impact of changes.	Purchasing & Store Managers	60–120 days	Sales growth in expanded categories; improved customer satisfaction.
Evaluate long-term store viability	1. Compare ongoing sales trends against benchmarks. 2. Identify persistently underperforming stores. 3. Develop downsizing or consolidation plan if declines persist. 4. Allocate resources to strengthen Window Rock store.	Executive Leadership, Finance, Operations	6–12 months	Store profitability analysis; decision made on downsizing or reinvestment.

Corrective Action Plan: Website Relaunch Project

Issue/Objective	Corrective Action	Responsible Party	Timeline	Outcome
A formal relaunch plan for GoNavajo.com	Appoint a Project Leader to oversee the website relaunch and form a cross-departmental task force.	Executive Leadership	Week 1 (Commence week of October 13, 2025)	Confirm leader and team assignments documented and communicated.
Clarify project management structure	Develop a detailed project management plan with defined scope, milestones, deliverables, and risk assessment.	Project Leader & Task Force	Weeks 1–2	Weekly review of project progress against timeline.
Internal expertise in web development	Assess internal technical resources; if insufficient, engage an external qualified web developer with proven e-commerce/retail expertise.	Executive Leadership	Week 2–3	Vendor contract in place if outsourced; confirm alignment with project goals.
Risk of delays or missed deadlines	Establish weekly task force meetings to track milestones, resolve issues, and update leadership.	Project Leader & Task Force	Ongoing (weekly)	Meeting minutes and milestone dashboard reviewed weekly.
Need for ongoing oversight	Implement a progress-tracking dashboard (tasks completed, upcoming deadlines, risks).	Project Leader	Week 2 onward	Dashboard shared weekly with leadership and stakeholders.

Corrective Action Plan: Establish Enterprise-Wide Key Performance Measures (KPIs)

Store Operations

Issue/Objective (KPI)	Corrective Action	Responsible Party	Timeline	Outcome
Sales per square foot	Optimize product placement and floor layout; remove underperforming products.	Store Managers	Monthly	Sales per sq. ft. report by store.
Sales per employee	Monitor staffing efficiency; provide training on upselling and customer engagement.	HR, Store Managers	Quarterly	Staff productivity dashboard.
Customer conversion rate	Track visitors vs. buyers; train staff on conversion techniques.	Store Managers, Sales Associates	Monthly	Conversion reports from POS & traffic counters.

Issue/Objective (KPI)	Corrective Action	Responsible Party	Timeline	Outcome
Average transaction value	Introduce bundled promotions and loyalty discounts.	Store Managers, Marketing	Monthly	POS reports on average transaction size.
Customer retention rate	Launch customer loyalty program and follow-up surveys.	Marketing, Store Ops	Quarterly	Retention reports and survey results.
Shrinkage rate per store	Strengthen inventory controls and loss prevention protocols.	Store Managers, Loss Prevention	Monthly	Shrinkage reports and audits.

Purchasing

Issue/Objective (KPI)	Corrective Action	Responsible Party	Timeline	Outcome
Inventory turnover by product line	Use sales data to adjust reordering frequency; reduce overstock of slow movers.	Purchasing Manager	Monthly	Turnover reports per product line.
Sell-through rate	Align buying decisions with demand forecasts; improve collaboration with Store Ops.	Purchasing, Store Ops	Monthly	Sell-through reports per SKU.

Marketing

Issue/Objective (KPI)	Corrective Action	Responsible Party	Timeline	Outcome
Social media engagement	Develop content calendar; track post performance and engagement rate.	Marketing	Weekly/ Monthly	Social media analytics reports.
Store foot traffic following campaigns	Use promo codes/QR codes to link campaigns to store visits.	Marketing, Store Ops	Monthly	Campaign-to-traffic reports.
Website performance	Optimize SEO and digital ads; improve website UX.	Marketing, IT	Monthly	Google Analytics or web reporting dashboard.

Corrective Action Plan: Strengthen Board Governance and Structure

Issue/Objective	Corrective Action	Responsible Party	Timeline	Outcome
Board Tenure Limits	Draft and adopt a resolution limiting Board members to two 4-year terms (8 years max).	NACE Board	TBD	TBD
	Implement succession planning to ensure leadership continuity and diverse representation.	NACE Board	Ongoing	Annual review of Board composition and diversity metrics.
Line-Item Budgets	Require submission of detailed line-item budgets (enterprise-wide and by department).	NACE Board President; Department Heads	Annual budget cycle	Budget review and approval documented in Board meeting minutes.
	Provide Board training on budget analysis and financial oversight.	Finance; External Trainer	Within 12 months	Attendance logs and evaluation surveys after training.
Balanced Budget Policy	Adopt a formal balanced budget policy requiring projected revenues ≥ projected expenses.	NACE Board President; Finance	Within 3 months	Budget review and approval documented in Board meeting minutes
	Develop corrective action procedures for budget shortfalls (e.g., expense reduction, new revenue sources).	Finance	Ongoing	Quarterly review of financial performance vs. budget.
Cash Reserve Policy	Establish a written cash reserve policy targeting 3–6 months of operating expenses.	NACE Board President; Finance	Within 4 months	Policy adoption documented in Board minutes.
	Require quarterly financial reporting to the Board on cash reserve levels.	Finance; Board Treasurer	Quarterly	Quarterly reports reviewed in Board meetings; compliance noted in minutes.
	Develop a reserve replenishment plan if reserves fall below the target range.	Finance	As needed	Reported during quarterly Board finance updates.

Corrective Action Plan: Improve Tax Compliance

Issue/Objective	Corrective Action	Responsible Party	Timeline	Outcome
a. Employee bonuses issued through accounts payable instead of payroll	1. Immediately discontinue bonus payments via accounts payable. 2. Establish a procedure requiring all bonuses to be processed through payroll.	Finance; Payroll Manager	Within 30 days	Monthly payroll audits; Board sign-off on bonus disbursements
b. Finance policies lack IRS deadlines for 1099 filings & allow misclassification of compensation	1. Revise finance policies to include clear 1099 filing deadlines. 2. Explicitly prohibit employee compensation as vendor payments. 3. Circulate updated policies to all finance staff and obtain signed acknowledgment.	Finance	45 days	Annual policy review; Internal compliance audits
c. Lack of staff training in payroll tax compliance	1. Develop a training program covering IRS payroll tax rules, 1099 vs. W-2 requirements, and reporting standards. 2. Require annual refresher training. 3. Document staff completion and include in HR records.	HR Manager	Training launch within 60 days; annual thereafter	Training attendance logs; Pre- and post-training assessments
d. Prior 3 years' bonuses misclassified as 1099 compensation	1. Engage external accountants to review the prior 3 years of payments. 2. Correct misclassified records and reissue W-2s/1099s as required. 3. Submit amended tax filings to IRS. 4. Communicate corrections to affected employees.	Finance; External Accountant	Begin immediately; complete within 6 months	Confirmation of amended filings; IRS acceptance letters; Employee acknowledgment of corrected forms

Corrective Action Plan: Strengthen Internal Controls and Implement a Comprehensive Set of Written Policies and Procedures

Issue/Objective	Corrective Action	Responsible Party	Timeline	Outcome
Implement all 20 recommended actions from Appendix A	1. Review Appendix A and prioritize actions by risk and impact. 2. Develop a detailed implementation schedule. 3. Assign responsible staff for each action. 4. Track completion and validate compliance with COSO standards.	Finance	30 days	All 20 actions implemented; internal control environment aligns with COSO framework.
Ensure proper segregation of duties	1. Current workflows have been mapped. 2. Identify areas where duties overlap or conflicts exist. 3. Reassign tasks to ensure no single individual can authorize, process, and reconcile transactions. 4. Document new procedures and train staff.	Finance	30 days	Clear segregation of duties; reduction in risk of fraud or errors; staff trained on new responsibilities.
Assign financial oversight responsibilities to qualified staff or external advisors	1. Identify gaps in current staff expertise. 2. Engage temporary qualified staff or external financial advisors. 3. Assign oversight of key financial functions. 4. Establish reporting and review cadence until permanent staff is in place.	Finance; Executive Leadership	30 days	Continuous financial oversight; all transactions reviewed by qualified personnel; gaps in expertise temporarily filled.
Finalize comprehensive written policies and procedures	1. Consolidate all financial and operational policies into a single manual. 2. Include procedures for approvals, documentation, and monitoring. 3. Circulate draft for review	Finance	30 days	Policies and procedures formalized, documented, and approved; staff compliance verified.

Issue/Objective	Corrective Action	Responsible Party	Timeline	Outcome
	and approval by management. 4. Obtain board approval. 5. Train staff and enforce adherence.			
Monitor and evaluate internal control effectiveness	1. Conduct periodic internal audits and control reviews. 2. Track compliance with policies and segregation of duties. 3. Report findings to management and the Board quarterly.	Finance	Ongoing, quarterly reviews	Continuous improvement of internal controls; early identification and correction of weaknesses.

Corrective Action Plan: Enhance Strategic and Operational Planning

Issue/Objective	Corrective Action	Responsible Party	Timeline	Outcome
Implement all 15 recommended actions from Appendix B	1. Review and prioritize all 15 recommendations. 2. Assign responsible team members to each action. 3. Develop a detailed implementation schedule. 4. Monitor completion and track progress using project management tools.	Executive Leadership and Department Heads	90 days	100% of Appendix B actions are implemented, and completion reports are documented.
Align departmental goals with enterprise strategic priorities	1. Require each department to submit annual goals aligned with strategic priorities. 2. Document action steps, timelines, and measurable outcomes. 3. Review submissions for alignment and feasibility.	Executive Leadership and Department Heads	60 days	All departmental goals are documented and aligned with the enterprise strategy; verified through review.
Establish quarterly progress reviews	1. Schedule quarterly strategic review meetings. 2. Develop performance dashboards to track	Executive Leadership and Department Heads	First review within 90 days; quarterly thereafter	Quarterly progress reports completed on time; 90% of strategic objectives on track or achieved.

Issue/Objective	Corrective Action	Responsible Party	Timeline	Outcome
	progress on key objectives. 3. Assign accountability for reporting outcomes.			
Finalize draft policies and procedures	1. Review current draft documents. 2. Incorporate feedback from leadership and staff. 3. Approve finalized policies and distribute to all departments.	Executive Leadership and Department Heads	45 days	All draft policies finalized, approved, and distributed; staff acknowledgment recorded.
Eliminate use of non-disclosure agreements	1. Identify existing agreements in use. 2. Communicate new policy aligning with NN personnel rules. 3. Replace NDAs with compliant agreements where necessary. 4. Train staff on updated policies.	Human Resources; Legal Counsel	30 days	100% compliance with NN personnel rules; no NDAs in use contrary to policy.

CLIENT RESPONSE

October 6, 2025

TAP International
117 East Colorado, Suite 600
Pasadena, CA 91105

Good Afternoon,

I hope this letter finds you in good health and spirits. Navajo Arts and Crafts Enterprise (NACE) have reviewed and accepts the findings from the audit that was conducted by TAP International, Inc.

We have attached the corrective action plan, and if you have any questions or concerns, please do not hesitate to reach out.

Ahéhee' (Thank you)

Sincerely,

JT Willie, MPA
Chief Executive Officer
Navajo Arts and Crafts Enterprise

Corrective Action Plan: Three-Year Marketing Plan Development

Issue/Objective	Corrective Action	Responsible Party	Timeline	Outcome
Formal marketing planning	Form a cross-functional marketing task force to oversee plan development	Marketing Manager	Week 1 (Commence week of October 13, 2025)	Task force established and meeting schedule created
Define objectives and strategies	Conduct a strategic planning workshop to define 3-year objectives and core strategies	Marketing Task Force	Weeks 2–3	Documented objectives and strategies approved by leadership
Clear target audience segmentation	Perform market research and customer segmentation analysis (demographics, psychographics, buying behavior)	Marketing Analyst	Weeks 4–6	Segmentation report finalized and incorporated into the plan
Budget allocation process	Develop a detailed budget aligned with strategies (traditional + digital)	Finance & Marketing Manager	Weeks 7–8	Approved marketing budget with line items for each initiative
Measurable performance indicators	Define KPIs (e.g., lead generation, customer acquisition cost, retention rates, ROI)	Marketing Manager	Week 9	KPI framework documented and linked to reporting system
Digital and traditional integration	Outline combined strategy including social media, SEO, paid ads, events, and print media	Marketing Task Force	Weeks 10–12	Draft plan includes both digital and traditional channels
Customer base growth initiatives	Identify and design targeted campaigns (referral programs, promotions, partnerships)	Marketing Manager	Months 4–6	Campaign calendar created with growth targets
Monitoring and reporting structure	Establish monthly review process and quarterly progress reports	Marketing Manager	Month 3 and ongoing	Regular reporting to leadership; adjustments made as needed

Corrective Action Plan: Implement Intervening Sales Strategies

Issue/Objective	Corrective Action	Responsible Party	Timeline	Outcome
Develop turnaround strategies for Chinle, Kayenta, and Shiprock stores	1. Conduct a SWOT analysis of each location. 2. Identify customer needs and preferences via surveys and sales data. 3. Create tailored turnaround plans (pricing, promotions, store layout improvements).	Regional Manager, Store Managers	30–60 days	Completed turnaround strategy plans approved by leadership.
Monitor sales and sales per square foot monthly	1. Establish sales tracking dashboards. 2. Review sales and foot traffic monthly. 3. Share performance reports with management.	Finance & Store Managers	Ongoing (monthly)	Monthly reports delivered; trends documented and reviewed.
Expand merchandise variety based on forecasts	1. Perform detailed sales forecasting. 2. Identify underrepresented product categories. 3. Pilot expanded merchandise in select stores. 4. Measure sales impact of changes.	Purchasing & Store Managers	60–120 days	Sales growth in expanded categories; improved customer satisfaction.
Evaluate long-term store viability	1. Compare ongoing sales trends against benchmarks. 2. Identify persistently underperforming stores. 3. Develop downsizing or consolidation plan if declines persist. 4. Allocate resources to strengthen Window Rock store.	Executive Leadership, Finance, Operations	6–12 months	Store profitability analysis; decision made on downsizing or reinvestment.

Corrective Action Plan: Website Relaunch Project

Issue/Objective	Corrective Action	Responsible Party	Timeline	Outcome
A formal relaunch plan for GoNavajo.com	Appoint a Project Leader to oversee the website relaunch and form a cross-departmental task force.	Executive Leadership	Week 1 (Commence week of October 13, 2025)	Confirm leader and team assignments documented and communicated.
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Internal expertise in web development	Assess internal technical resources; if insufficient, engage an external qualified web developer with proven e-commerce/retail expertise.	Executive Leadership	Week 2–3	Vendor contract in place if outsourced; confirm alignment with project goals.
Risk of delays or missed deadlines	Establish weekly task force meetings to track milestones, resolve issues, and update leadership.	Project Leader & Task Force	Ongoing (weekly)	Meeting minutes and milestone dashboard reviewed weekly.
Need for ongoing oversight	Implement a progress-tracking dashboard (tasks completed, upcoming deadlines, risks).	Project Leader	Week 2 onward	Dashboard shared weekly with leadership and stakeholders.

Corrective Action Plan: Establish Enterprise-Wide Key Performance Measures (KPIs)

Store Operations

Issue/Objective (KPI)	Corrective Action	Responsible Party	Timeline	Outcome
Sales per square foot	Optimize product placement and floor layout; remove underperforming products.	Store Managers	Monthly	Sales per sq. ft. report by store.
Sales per employee	Monitor staffing efficiency; provide training on upselling and customer engagement.	HR, Store Managers	Quarterly	Staff productivity dashboard.
Customer conversion rate	Track visitors vs. buyers; train staff on conversion techniques.	Store Managers, Sales Associates	Monthly	Conversion reports from POS & traffic counters.

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Customer retention rate	Launch customer loyalty program and follow-up surveys.	Marketing, Store Ops	Quarterly	Retention reports and survey results.
Shrinkage rate per store	Strengthen inventory controls and loss prevention protocols.	Store Managers, Loss Prevention	Monthly	Shrinkage reports and audits.

Purchasing

Issue/Objective (KPI)	Corrective Action	Responsible Party	Timeline	Outcome
Inventory turnover by product line	Use sales data to adjust reordering frequency; reduce overstock of slow movers.	Purchasing Manager	Monthly	Turnover reports per product line.
Sell-through rate	Align buying decisions with demand forecasts; improve collaboration with Store Ops.	Purchasing, Store Ops	Monthly	Sell-through reports per SKU.

Marketing

Issue/Objective (KPI)	Corrective Action	Responsible Party	Timeline	Outcome
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Website performance	Optimize SEO and digital ads; improve website UX.	Marketing, IT	Monthly	Google Analytics or web reporting dashboard.

Corrective Action Plan: Strengthen Board Governance and Structure

Issue/Objective	Corrective Action	Responsible Party	Timeline	Outcome
Board Tenure Limits	Draft and adopt a resolution limiting Board members to two 4-year terms (8 years max).	NACE Board	TBD	TBD
	Implement succession planning to ensure leadership continuity and diverse representation.	NACE Board	Ongoing	Annual review of Board composition and diversity metrics.
Line-Item Budgets	Require submission of detailed line-item budgets (enterprise-wide and by department).	NACE Board President; Department Heads	Annual budget cycle	Budget review and approval documented in Board meeting minutes.
	Provide Board training on budget analysis and financial oversight.	Finance; External Trainer	Within 12 months	Attendance logs and evaluation surveys after training.
Balanced Budget Policy	Adopt a formal balanced budget policy requiring projected revenues ≥ projected expenses.	NACE Board President; Finance	Within 3 months	Budget review and approval documented in Board meeting minutes
	Develop corrective action procedures for budget shortfalls (e.g., expense reduction, new revenue sources).	Finance	Ongoing	Quarterly review of financial performance vs. budget.
Cash Reserve Policy	Establish a written cash reserve policy targeting 3–6 months of operating expenses.	NACE Board President; Finance	Within 4 months	Policy adoption documented in Board minutes.
	Require quarterly financial reporting to the Board on cash reserve levels.	Finance; Board Treasurer	Quarterly	Quarterly reports reviewed in Board meetings; compliance noted in minutes.
	Develop a reserve replenishment plan if reserves fall below the target range.	Finance	As needed	Reported during quarterly Board finance updates.

Corrective Action Plan: Improve Tax Compliance

Issue/Objective	Corrective Action	Responsible Party	Timeline	Outcome
a. Employee bonuses issued through accounts payable instead of payroll	1. Immediately discontinue bonus payments via accounts payable. 2. Establish a procedure requiring all bonuses to be processed through payroll.	Finance; Payroll Manager	Within 30 days	Monthly payroll audits; Board sign-off on bonus disbursements
b. Finance policies lack IRS deadlines for 1099 filings & allow misclassification of compensation	1. Revise finance policies to include clear 1099 filing deadlines. 2. Explicitly prohibit employee compensation as vendor payments. 3. Circulate updated policies to all finance staff and obtain signed acknowledgment.	Finance	45 days	Annual policy review; Internal compliance audits
c. Lack of staff training in payroll tax compliance	1. Develop a training program covering IRS payroll tax rules, 1099 vs. W-2 requirements, and reporting standards. 2. Require annual refresher training. 3. Document staff completion and include in HR records.	HR Manager	Training launch within 60 days; annual thereafter	Training attendance logs; Pre- and post-training assessments
d. Prior 3 years' bonuses misclassified as 1099 compensation	1. Engage external accountants to review the prior 3 years of payments. 2. Correct misclassified records and reissue W-2s/1099s as required. 3. Submit amended tax filings to IRS. 4. Communicate corrections to affected employees.	Finance; External Accountant	Begin immediately; complete within 6 months	Confirmation of amended filings; IRS acceptance letters; Employee acknowledgment of corrected forms

Corrective Action Plan: Strengthen Internal Controls and Implement a Comprehensive Set of Written Policies and Procedures

Issue/Objective	Corrective Action	Responsible Party	Timeline	Outcome
Implement all 20 recommended actions from Appendix A	1. Review Appendix A and prioritize actions by risk and impact. 2. Develop a detailed implementation schedule. 3. Assign responsible staff for each action. 4. Track completion and validate compliance with COSO standards.	Finance	30 days	All 20 actions implemented; internal control environment aligns with COSO framework.
Ensure proper segregation of duties	1. Current workflows have been mapped. 2. Identify areas where duties overlap or conflicts exist. 3. Reassign tasks to ensure no single individual can authorize, process, and reconcile transactions. 4. Document new procedures and train staff.	Finance	30 days	Clear segregation of duties; reduction in risk of fraud or errors; staff trained on new responsibilities.
Assign financial oversight responsibilities to qualified staff or external advisors	1. Identify gaps in current staff expertise. 2. Engage temporary qualified staff or external financial advisors. 3. Assign oversight of key financial functions. 4. Establish reporting and review cadence until permanent staff is in place.	Finance; Executive Leadership	30 days	Continuous financial oversight; all transactions reviewed by qualified personnel; gaps in expertise temporarily filled.
Finalize comprehensive written policies and procedures	1. Consolidate all financial and operational policies into a single manual. 2. Include procedures for approvals, documentation, and monitoring. 3. Circulate draft for review	Finance	30 days	Policies and procedures formalized, documented, and approved; staff compliance verified.

Issue/Objective	Corrective Action	Responsible Party	Timeline	Outcome
	and approval by management. 4. Obtain board approval. 5. Train staff and enforce adherence.			
Monitor and evaluate internal control effectiveness	1. Conduct periodic internal audits and control reviews. 2. Track compliance with policies and segregation of duties. 3. Report findings to management and the Board quarterly.	Finance	Ongoing, quarterly reviews	Continuous improvement of internal controls; early identification and correction of weaknesses.

Corrective Action Plan: Enhance Strategic and Operational Planning

Issue/Objective	Corrective Action	Responsible Party	Timeline	Outcome
Implement all 15 recommended actions from Appendix B	1. Review and prioritize all 15 recommendations. 2. Assign responsible team members to each action. 3. Develop a detailed implementation schedule. 4. Monitor completion and track progress using project management tools.	Executive Leadership and Department Heads	90 days	100% of Appendix B actions are implemented, and completion reports are documented.
Align departmental goals with enterprise strategic priorities	1. Require each department to submit annual goals aligned with strategic priorities. 2. Document action steps, timelines, and measurable outcomes. 3. Review submissions for alignment and feasibility.	Executive Leadership and Department Heads	60 days	All departmental goals are documented and aligned with the enterprise strategy; verified through review.
Establish quarterly progress reviews	1. Schedule quarterly strategic review meetings. 2. Develop performance dashboards to track	Executive Leadership and Department Heads	First review within 90 days; quarterly thereafter	Quarterly progress reports completed on time; 90% of strategic objectives on track or achieved.

Issue/Objective	Corrective Action	Responsible Party	Timeline	Outcome
	progress on key objectives. 3. Assign accountability for reporting outcomes.			
Finalize draft policies and procedures	1. Review current draft documents. 2. Incorporate feedback from leadership and staff. 3. Approve finalized policies and distribute to all departments.	Executive Leadership and Department Heads	45 days	All draft policies finalized, approved, and distributed; staff acknowledgment recorded.
Eliminate use of non-disclosure agreements	1. Identify existing agreements in use. 2. Communicate new policy aligning with NN personnel rules. 3. Replace NDAs with compliant agreements where necessary. 4. Train staff on updated policies.	Human Resources; Legal Counsel	30 days	100% compliance with NN personnel rules; no NDAs in use contrary to policy.