

Audit Requirement Basics

Operating with taxpayer, state, and federal monies puts Arizona school districts under high scrutiny. This often leads to more regulation and audit requirements. Listed below are the tiers of financial audit requirements and the various other audits Arizona school districts may be subject to:

- **Tier I** – School districts with a Maintenance and Operations (M&O) budget of \$700,000 or less are not required to have an annual or biennial audit. These school districts will be subject to procedural reviews by the Office of the Arizona Auditor General.
- **Tier II** – School districts with an M&O budget greater than \$700,000 are required to have a biennial financial statement audit (an audit of two fiscal years at the same time after the close of the second year).
- **Tier III** – Districts with an M&O budget greater than \$2 million are required to have an annual financial statement audit. However, a district may convert to a biennial audit schedule if the previous year’s audit did not contain any significant negative findings. The statute defines “significant negative findings” as findings that result in the issuance of a letter of noncompliance from the Office of the Auditor General. Converting from an annual audit to a biennial audit is uncommon.
- **Tier IV** – School districts that expend more than \$750,000 in federal monies must have an additional audit called a Single Audit in conformance with the Office of Management and Budget’s (OMB) Uniform Guidance.
- All school districts that are required to have a financial statement audit will also be required to have the **Uniform System of Financial Records (USFR)** compliance questionnaire completed by the auditors.

If a school district is required to have a single audit performed, there are additional requirements, as documented below:

- In addition to having a financial statement audit, a single audit will require the school district to compile a **Schedule of Expenditures of Federal Awards (SEFA)**. This schedule identifies each federal award received and the total expenditures for each program by federal awarding agency and pass-through entity. This schedule is typically compiled with the help of the audit firm.
- A **summary schedule of prior audit findings** will also be required. This is a summary of prior year audit findings included in the schedule of findings and questioned costs for the previous audit period related to federal awards.
- In addition, a **corrective action plan** will need to be prepared that addresses the current year findings as documented in the schedule of findings and questioned costs and how those findings will be remedied in future periods. The corrective action plan must include the name of the contact person responsible for corrective action, the corrective action planned, and the anticipated completion date. If there is a disagreement with an audit finding, this is the place to document that disagreement.
- Lastly, a data collection form approved by the OMB must be completed and submitted along with the audit reports. These forms are standardized by the OMB and can be found at <https://facweb.census.gov/uploadpdf.aspx>.

How to Obtain an Audit Firm

There are many qualified audit firms available in Arizona to perform these various audit procedures. Most districts maintain a bidder's list of qualified audit firms that have reached out to be considered when a new audit contract is required. A.R.S. §§15-914(E) and 41-1279.21(A)(4) require that audit contracts and completed audit reports be approved by the Auditor General. A district contracting for an audit must follow the School District Procurement Rules or the Guidelines for Written Quotes. It is recommended that districts use an RFP when obtaining written quotes, even if other requirements of the School District Procurement Rules are not followed. After the contract is awarded to the selected audit firm, the district must send a copy of the proposed contract to the Office of the Auditor General for approval before the contract is signed and audit work commences. The Office of the Auditor General will notify the district of approval, disapproval, and any contract deficiencies requiring correction.

Audit Deadlines

You have identified what type of audit you are subject to, the procedures of an audit, and what reports must be completed by the audit, now when are they due? In Arizona, the financial statement audit (annual and biennial) and the related USFR compliance questionnaire are due nine months after the close of the fiscal year (**March 31st**). Some districts elect to participate in Certificate of Excellence in Financial Reporting Programs from the Government Finance Officers Association (GFOA) or Association of School Business Officials International (ASBOI) programs that require a Comprehensive Annual Financial Report be prepared and submitted six months after the end of the fiscal year (**December 31st**). The Comprehensive Annual Financial Report requires additional schedules that take more time and usually require additional costs.

Other Audits

In addition to the financial statement audit, single audit and USFR compliance questionnaire, school districts in Arizona may also be subject to procedural reviews and performance audits:

- **Procedural Reviews** – For those school districts that were not subject to an audit, procedural reviews may be performed by the Office of the Auditor General. The objective of a procedural review is to conduct a study and evaluation of the district's internal controls to determine whether they are in compliance with the USFR. The procedural review is substantially less in scope than an audit and no opinion is expressed.
- **Performance Audits** - A.R.S. §41-1279.03 requires the Auditor General to conduct performance audits of school districts. Districts are selected randomly by the Office of the Auditor General for these audits. These audits focus on operational areas such as administration, plant operations and maintenance, food service, student transportation, and IT policies and controls that are designed to determine whether a district is managing its resources in an effective, economical, and efficient manner. These audits provide the legislature, district decision-makers, and the public with information on the use of public monies and identify best practices or make recommendations to the districts to improve operations.

Details on the provided guidance along with additional materials can be found within the Uniform System of Financial Records (USFR) posted on the Auditor General's website at:

<https://www.azauditor.gov/reports-publications/school-districts/manuals-memorandums>

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