Keeping Up with the USFR

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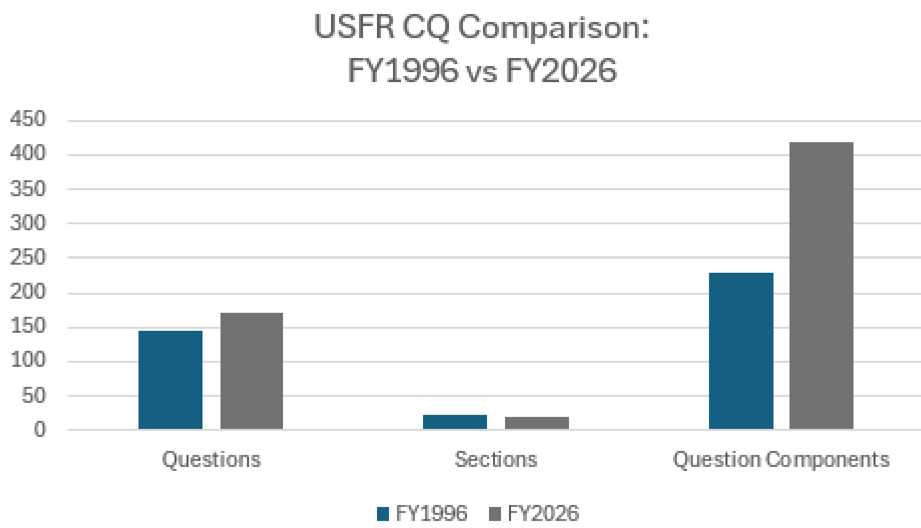
We frequently write about internal controls, audits and staying in compliance with rules and regulations. In Arizona school districts it is impossible to discuss regulations, internal controls or audits without mentioning the Uniform System of Financial Records (USFR). As a refresher, the USFR is the manual that prescribes the minimum internal control policies and procedures that must be followed by Arizona school districts. It also includes the USFR Compliance Questionnaire (USFR CQ), which auditors are required to complete as part of the annual audit process.

The USFR manual is updated only periodically, whereas the USFR CQ is updated annually. Last month there were revisions to the USFR and two new sections were unveiled: one for Governing Board and Management Procedures and one for Conflict of Interest. In addition, there were updates to reorganize and modernize certain sections, including a welcome addition regarding online banking and an increase to the written quote threshold. These changes are effective for fiscal year 2027.

Despite there being significant changes to the USFR itself, districts will be happy to know that there was nothing substantial in the related USFR CQ for the upcoming audit cycle. In fact, there were only minor changes to clarify required sample sizes for auditors in the area of student attendance.

Although there might not have been significant changes to the USFR CQ this time around, that hasn't always been the case. In fact, there have been quite a few changes over the past thirty years! As accountants, we love our numbers, data points and historical trends. If we take a look back at the USFR CQ from thirty years ago, we see that the fiscal year 1996 USFR CQ included 144 questions across 22 sections. By fiscal year 2026, it had 171 questions across 18 sections. Further, because many questions include multiple procedures, the total number of question components increased from 229 in 1996 to 420 in 2026—an 83% increase.



This becomes important when you consider the audit process. Auditors must design procedures and select transaction samples that enable them to answer each USFR CQ question with a simple "yes" or "no," unless a question is not applicable. For example, if a district issues a new bond, auditors must verify that the debt stayed within the legal limit; if no new debt was issued, the question would be considered not applicable. Questions containing multiple requirements must still be answered with a single "yes" or "no". If the auditor determines a portion of the question is satisfied, but another portion is not, the entire question must be answered with a "no".

So how can you stay in compliance with all these requirements? Use both the USFR manual and the USFR CQ as a resource. Here are some additional tips:

- The USFR CQ includes procedures to be performed. Consider developing an internal audit program to catch potential noncompliance before it becomes a problem.
- Take a few moments to review the changes and new sections of the USFR, which can be found at https://www.azauditor.gov/usfr. Be sure to share with others in your district as well.
- Develop robust training programs for employees and board members. Consider creating videos or on demand webinars for those who are unable to attend live training.
- As always, document, document, document!