

Three More Procurement Tips from an Auditor

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Procurement is one of the major areas that is reviewed as part of the annual Uniform System of Financial Records (USFR) Compliance Questionnaire for Arizona school districts. As of the 2024 version, there are 26 questions in total that span different areas within procurement, which include cooperative purchases, written quotes, emergency procurements, sole source, and formal procurement. As a follow-up to an article written by my colleague titled [“Three Procurement Tips from an Auditor”](#) from last year, here are three more tips to help ensure that your USFR procurement compliance audit goes smoothly.

Tip 1 – Ensure That Proper Sole Source Documentation is Maintained

Procurement Compliance Question #23 now specifically requires auditors to determine whether the district maintained support for sole source vendors that includes the following information:

1. A description of the procurement needed and the reason only a single source was available, or why no reasonable alternative exists.
2. The name of the proposed supplier.
3. The duration and estimated total dollar values of the proposed procurement.
4. Documentation that the price was fair and reasonable.
5. A description of the efforts made to seek other sources.

Districts should have always maintained the above information under Arizona Administrative Code R7-2-1053. However, if a district is not currently documenting the

above information explicitly, it is highly recommended that the district create a standardized form to be in compliance.

While sole source designations might gain more detail than in the past, the same governing board approval of source vendors is still required. Districts with successful compliance practices will compile a list of sole source vendors at the beginning of the fiscal year and bring that list to the Governing Board for approval at a similarly scheduled meeting each year. Having an established and regular approval process will set the district up for sole source vendor compliance success.

Tip 2 – Periodically Review and Update Vendor Award Numbers

One of the things I find that helps auditors determine procurement compliance more easily is an up-to-date listing of vendor awards in your financial system that will be attached to individual transactions. Auditors will likely utilize a vendor transaction listing that includes vendor award numbers to determine purchases for compliance review. For example, when auditors determine which vendors to review for cooperative purchases, they will filter the vendor award field for award numbers from various purchasing cooperatives. Another example is when auditors determine which vendors to review for written quotes compliance, they will filter for vendors where the district has expended \$10,000 or more and filter the vendor awards for written quotes if the district has notated those purchases in their financial system in that manner.

Periodically reviewing and updating the vendor award numbers can be beneficial for district internal operations as well. Districts can ensure that proper procurement practices are followed for the different vendors the district conducts business with if vendor award numbers are up to date and accurate. Districts should update outdated vendor award numbers, such as for expired contracts. This review can be done in conjunction with the reviews done over total purchase amounts by vendors to determine whether they are reaching different procurement thresholds.

Tip 3 – Ensure Training and Guidance Related to Conflict of Interest is Provided to Employees

Although Procurement Compliance Question #17 requires that the districts provide training and guidance related to restrictions on soliciting, accepting, or agreeing to accept any personal gift or benefit with a value of \$300 or more, districts are also required to provide annual training to employees about disclosing any potential conflict of interest. Furthermore, employees and governing board members must complete a conflict-of-interest form annually to disclose any potential conflict of interest.

A best practice for districts is to have an automated process in place to train employees and acquire conflict of interest disclosures. An additional step would be creating an automated process to compare employee and governing board members' information against vendor information, such as addresses, email addresses, and phone numbers to identify undisclosed conflicts of interest. If a match is identified and the employee or board member did not properly disclose their conflict-of-interest, districts should review the training provided to ensure that they are aware of disclosing any potential conflicts-of-interest.

If the District conducts business with conflicted vendors, additional considerations are required, specifically if the vendor is owned by an employee or governing board member. For employee-owned businesses, according to Arizona Attorney General Opinion I06-002, districts must follow the School District Procurement Rules, regardless of the expenditure amount, when purchasing goods or services from district employees. Similarly, districts are required to follow the School District Procurement Rules for all purchases of services from district board members regardless of dollar amount. However, for purchases of supplies, materials, and equipment from district board members, districts are required to follow the School District Procurement Rules only if the purchase exceeds \$100,000. Purchases below the \$100,000 threshold must comply with the guidelines for written quotes.

Overall, there are many considerations that are needed in the area of procurement. The above three tips should be helpful in not only ensuring that the USFR Compliance Questionnaire review over procurement goes more smoothly but also in implementing policies and procedures that can assist with overall procurement operations.

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