



USFR MEMORANDUM NO. 243

TO: School District Administrators; County School Superintendents

FROM: Magdalene D. Haggerty, Office of the Auditor General
Vicki G. Salazar, Arizona Department of Education (ADE)

DATE: October 30, 2009

SUBJECT: School District Audits (Amends USFR Memorandum No. 240)

Details regarding two recent items that impact school district audits are discussed below. The first item, regarding financial statement audits, impacts audits for the year ended June 30, 2009, and thereafter. The second item, regarding the American Recovery and Reinvestment Act, State Fiscal Stabilization Fund monies, impacts audits for the year ending June 30, 2010, and any future year when such monies are received.

Both of the items discussed below constitute a change in the scope, character, or complexity of audit work to be performed, and may require an audit contract amendment for some districts. For districts that have a current audit contract approved by our Office, the district should submit a contract amendment to our Office for review for the fiscal year(s) impacted by the provisions discussed below. If a district has not yet submitted an audit contract to our Office for review, the district should consider the information below before contracting for audit services. For additional information regarding school district audits as well as audit contract amendments, please refer to USFR Memorandum No. 240.

Financial Statement Audits

Arizona Revised Statutes (A.R.S.) §15-914(A) regarding school district financial and compliance audits was amended by Laws 2009, 3rd Special Session, Chapter 12, §30. The amendment allows districts not subject to the *Single Audit Act Amendments of 1996* to convert to a biennial audit schedule if the previous year's audit did not contain any significant negative findings. The law defines "significant negative findings" to mean findings that result in the issuance of a letter of noncompliance from our Office.

Beginning with audits of the fiscal year ended June 30, 2009, districts with an adopted expenditure budget of \$2 million or more for the Maintenance and Operation Fund that did not expend \$500,000 or more in federal awards may convert to a biennial audit schedule if the prior year's audit did not result in a letter of noncompliance from our Office. Eligible districts that wish to change to a biennial audit should send a contract amendment to our Office to modify the scope of the audit work. If, after a district has converted to a biennial audit schedule, our Office issues a letter of noncompliance based on the biennial audit, the district must convert back to an annual audit schedule. However, a district may again convert to a biennial audit schedule after receiving two annual audits that do not contain any significant negative findings.

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American Recovery and Reinvestment Act, State Fiscal Stabilization Fund (SFSF)

For audits for the fiscal year ending June 30, 2010, and any future year when SFSF monies are received, districts should consider the amount of SFSF monies expended as part of their total federal expenditures in determining whether they have exceeded the single audit threshold. If districts expend \$500,000 or more in federal awards, including SFSF monies expended, they are required to obtain an annual single audit. If a district should need to change an existing audit contract from a financial statement audit to a single audit, it should submit a contract amendment to our Office.

If you have any questions or need assistance, please call the Office of the Auditor General, Accounting Services Division, at (602) 553-0333, or ADE School Finance, at (602) 542-5695.

MDH/VGS/ms