June 2026 USFR Updates

August 12, 2026

ARIZONA Auditor General
Making a Positive Difference

June 2026 USFR Updates

Meghan L. Hieger, CPA
Arizona Auditor General's Office

June 2026 USFR Updates Overview

- USFR History and Background.
- Why was the USFR updated?
- USFR Update Process.
- June 2026 USFR Updates.
- FY 2028 Planned USFR Updates.

USFR History and Background

- A.R.S. §15-271– requires the Auditor General in conjunction with ADE to prescribe the USFR.
- USFR updates:
  - Annually – Chart of accounts, statutory changes, clarifications, as needed.
  - June 2024 – Calendar of Events, Budgeting, Fund Accounting, Property Control, Travel.
  - March 2025 – Accounting Procedures, Supplies Inventory, Financial Reporting.
  - June 2025 – Payroll, Audit Requirements.

Why is the USFR updated?

- Modernize guidance for current revenue and expenditure processing capabilities.
- Eliminate duplicated guidance for revenue and expenditure processing.
- Reorganize guidance into more clear, stand-alone sections.
- Incorporate existing FAQ information into the USFR.
- Ensure clear guidance for all existing Compliance Questionnaire questions and State law requirements.
- Provide additional sample forms and best practice procedures.

USFR Update Process

June 2026 USFR Updates

June 2026 USFR Updates

- FY 2027 Compliance Questionnaire impacts.
- 2 new guidance sections:
    - Governing board and management procedures.
    - Conflict of interest.
- Reorganized USFR sections.
- Revised USFR guidance.
- Today we will discuss questions we have received, and SFAC members will provide input regarding practical implementation.

FY 2027 Compliance Questionnaire

To be issued this Fall:

Will include	Won’t include

• Rearranged questions.
• Modified timely deposit question.
• Modified written quotations question.
• Modified online bank account access question.
• Modified expenditure approval question.
	• Additional questions about:
	  • Specific board-adopted policies.
	  • Like-items analysis.
	  • Food purchases.
	  • Conflicts of interest.
	  • Delegation.

June 2026 USFR Updates

Must vs. shall vs. should

- Throughout the USFR:
  - "Must" or "shall" is generally used to describe statutory requirements districts are compelled to comply with by State or federal law or regulation.
  - "Should" is generally used to describe the administrative policies and procedures that districts are required to follow to comply with the USFR.
- Districts may use alternative policies and procedures if they provide the same level of internal control over accounting, financial reports, and compliance State and federal laws.

Governing Board and Management Procedures

Governing board and management procedures

What is the purpose of GBMP section?

- Provide clarification around the powers and duties for district governing boards related to the USFR and school district finances.
  - Summarizes governing board responsibilities described in the USFR and USFR Compliance Questionnaire.
  - Provides information on existing legal requirements and best practices to meet those requirements.
  - Focuses on high-risk areas based on deficiencies and findings in performance audits and noncompliance status reviews.

Governing board and management procedures

Governing board responsibilities

- Policies and procedures.
- District finances.
- Governing board and employee travel.
- Open meeting law.
- Conflicts of interest.
- Arizona’s Gift Clause.

Governing board and management procedures

Policies and procedures

- Arizona Revised Statutes (A.R.S.) §15-341 requires governing boards to prescribe polices and procedures that are not inconsistent with:
  - State law.
  - Rules prescribed by Arizona State Board of Education.
- Policy vs. procedure.
- Each USFR section describes minimum policies and procedures.

Governing board and management procedures

Policies and procedures

- Governing board delegation
  - A.R.S. §15-341(F)—A governing board may delegate in writing to a superintendent, principal, or head teacher the authority to prescribe procedures consistent with governing board policies.
  - Other provisions in A.R.S. allowing governing board to delegate specific responsibilities.
  - A governing board may not delegate discretionary functions assigned to it by statute, unless authorized by legislation.(AG Opinion I87-119)
    - May only delegate purely ministerial, nondiscretionary functions without legislative authorization.

Governing board and management procedures

Questions

- How do I determine what governing board functions/responsibilities may be delegated?
  - Answer: Districts should answer the following questions to determine if a governing board function or responsibility may be delegated:
  - Is the board responsibility prescribed by statute? If yes:
    - Does statute allow the responsibility to be delegated?
    - Is the function being delegated purely ministerial or nondiscretionary?
    - If both of the above questions are answered no, the responsibility may not be delegated.
  - Consult legal counsel with questions/concerns.

Governing board and management procedures

Questions

- Is assigning tasks related to board responsibilities the same as delegation?
  - **Answer:** Assigning tasks related to board responsibilities is not the same as delegating a responsibility if the board retains and executes the final decision for the responsibility assigned to it by statute.
  - Examples of assigned tasks on the following slides.

Governing board and management procedures

Example 1 of assigned tasks

- **A.R.S. §15-905** requires "…the governing board of each school district shall prepare and furnish to the superintendent of public instruction and the county school superintendent, unless waived by the county school superintendent, a proposed budget in an electronic format for the budget year…"
- The task of preparing the budget form file is generally completed over a several-month period, with District administration obtaining input from board members and the community on budgeting priorities and expectations. The governing board must still approve proposed and adopted budget files prepared by district staff before they are final.

Governing board and management procedures

Example 2 of assigned tasks

- **A.R.S. §15-1154** allows "A governing board may operate school meal programs, and for that purpose may employ personnel, purchase equipment and food and incur other necessary expenses…"
- State law requires the governing board to make the decision of whether to operate a school meal program. If a governing board makes the decision to operate a school meal program, the board may assign tasks and procedures for operating that program, such as what food options to provide for lunch.

School Finance Advisory Committee Member Input

Aimee Manjarres, Pine-Strawberry Elementary School District

Michelle Lenhardt, Vail Unified School District

Governing board and management procedures

Questions

- Can the governing board delegate the authority to approve which student club fundraisers are carried out each year?

  - **Answer:** No. The governing board must approve in advance all fundraising events conducted by student clubs or organizations. The governing board may adopt a policy or resolution that specifies fundraisers student clubs may participate in and delegate in writing that the superintendent, principal, or head teacher may prescribe procedures to carry out the policy.

  - **A.R.S. §15-1121:** "All monies raised with the approval of the governing board of a school district by the efforts of students in pursuance of or in connection with all activities of student organizations, clubs, school plays or other student entertainment other than funds specified in sections §15-1125 and §15-1126 are student activities monies."

School Finance Advisory Committee Member Input

Aimee Manjarres, Pine-Strawberry Elementary School District

Michelle Lenhardt, Vail Unified School District

Governing board and management procedures

District finances

- Budgeting
- Bank accounts
- Payroll
- Expenditures
- Procurement
- Financial reporting
- Audit requirements
- Student activities

Governing board and management procedures

Governing board and employee travel

- Adopt a written travel policy that prescribes procedures for:
  - Approving travel in advance.
  - Maximum reimbursement limits, not to exceed ADOA amounts established in accordance with A.R.S. §38-621.
  - Requires supporting documentation.
- Arizona Accounting Manual (SAAM), topic 50—rate tables for maximum lodging and meal reimbursements; required per mile mileage rate.

Governing board and management procedures

Arizona's open meeting law

- A.R.S. §38-431
- Post notice of public meeting
- Meeting minutes and recordings
- Executive session
- Violations of open meeting law

Governing board and management procedures

Arizona's Gift Clause

- Arizona Constitution, Article IX §7
- Governing boards should be aware of and consider for all expenditures, but specifically consider it for infrequent and unusual purchases such as:
  - Food and beverage purchases.
  - Additional compensation and fringe benefits.

Governing board and management procedures

Arizona’s Gift Clause

- Food and beverage purchases—A.R.S. §15-342(39):
  - Governing board may provide food and beverages at district events, including trainings and other official school functions.
  - Subject to restrictions including the Arizona gift clause and laws pertaining to travel and subsistence.
- Governing board is responsible for approving expenditures in advance:
  - Approve each individual food or beverage purchase—document total amount or per person cost, district fund(s) to be used.
  - Adopt a policy or resolution—document expenditure limits/per-person costs, which districts funds may be used, delegation; detailed enough to eliminate discretion.
  - Document benefit to the district, its public purpose, and expenditure is in accordance with State laws, gift clause, and funding sources allowable uses.

Governing board and management procedures

Gift of public monies findings

- Since A.R.S. 15-342(39) was passed in 2021, our performance audit reports have identified multiple instances of district food and beverage purchases that:
  - Were not appropriately approved by the governing board in advance.
  - Governing board approval did not have enough detail to determine compliance with the Gift Cause.
  - District purchases exceeded governing-board-approved limits for food and beverage purchases.

Governing board and management procedures

Gift of public monies findings

- District incurred 7 food and beverage purchases in FY 2025 totaling $1,561 without obtaining the Board's advance approval.
  - Included $465 for catering a local area school superintendent meeting and $136 for a lunch meeting with County officials.
- District incurred 27 food and beverage purchases in FYs 2024 and 2025 totaling $36,000 without obtaining the Board's advance approval.
  - Included staff trainings and board meetings and were among 110 total food and beverage purchases made in those years totaling more than $61,300.
- District spent nearly $8,500 on food and beverages for District events without ensuring the purchases met statutory requirements.
  - The Board's resolution only authorized food and beverages at 5 events, but it provided food and beverages at 11 events. Resolution did not consider or restrict costs for each event and did not document the District benefit and public purpose.

Governing board and management procedures

Questions

- Does wording in an employee contract that allows a district to provide de minimis/incidental food and beverages at district events qualify as board approval for food and beverage purchases for gift clause purposes?
  - **Answer:** No. Such contract wording may authorize the employee to receive the benefit, but it does not authorize an administrator to make such purchases nor set any limits to ensure that a district's food and beverage purchases comply with various restrictions set forth in statute. Additionally, it does not address purchases of food and beverages for nonemployees, including governing board members and student family members or guardians, who may be attending a school function or training.
  - **A.R.S. §15-342(39):** Subject to Article IX, Section 7, Constitution of Arizona, the laws pertaining to travel and subsistence, gifts, grants, including federal grants, or devises and policies adopted by the department of education, provide food and beverages at school district events, including official school functions and trainings.

School Finance Advisory Committee Member Input

Aimee Manjarres, Pine-Strawberry Elementary School District

Michelle Lenhardt, Vail Unified School District

Conflict of Interest

Conflict of Interest

What is the purpose of the COI section?

- Provides best practice guidance to comply with COI laws.
- Includes more detailed information on complying with existing USFR Compliance Questionnaire questions.

Conflict of Interest

- COI Statutes and definitions
- Policies
- Procedures
  - Training
  - Disclosure
  - Memorialization
  - Remediation
- Penalties
- Sample form

Conflict of Interest

COI statutes

Chapter 3	CONDUCT OF OFFICE	Sec: 38-401-38-538.04
Article 8	**Conflict of Interest of Officers and Employees**	
38-501	Application of article	
38-502	Definitions	
38-503	Conflict of interest; exemptions; employment prohibition	
38-504	Prohibited acts	
38-505	Additional income prohibited for services	
38-506	Remedies	
38-507	Opinions of the attorney general, county attorneys, city or town attorneys and house and senate ethics committee	
38-508	Authority of public officers and employees to act	
38-509	Filing of disclosures	
38-510	Penalties	
38-511	Cancellation of political subdivision and state contracts; definition	

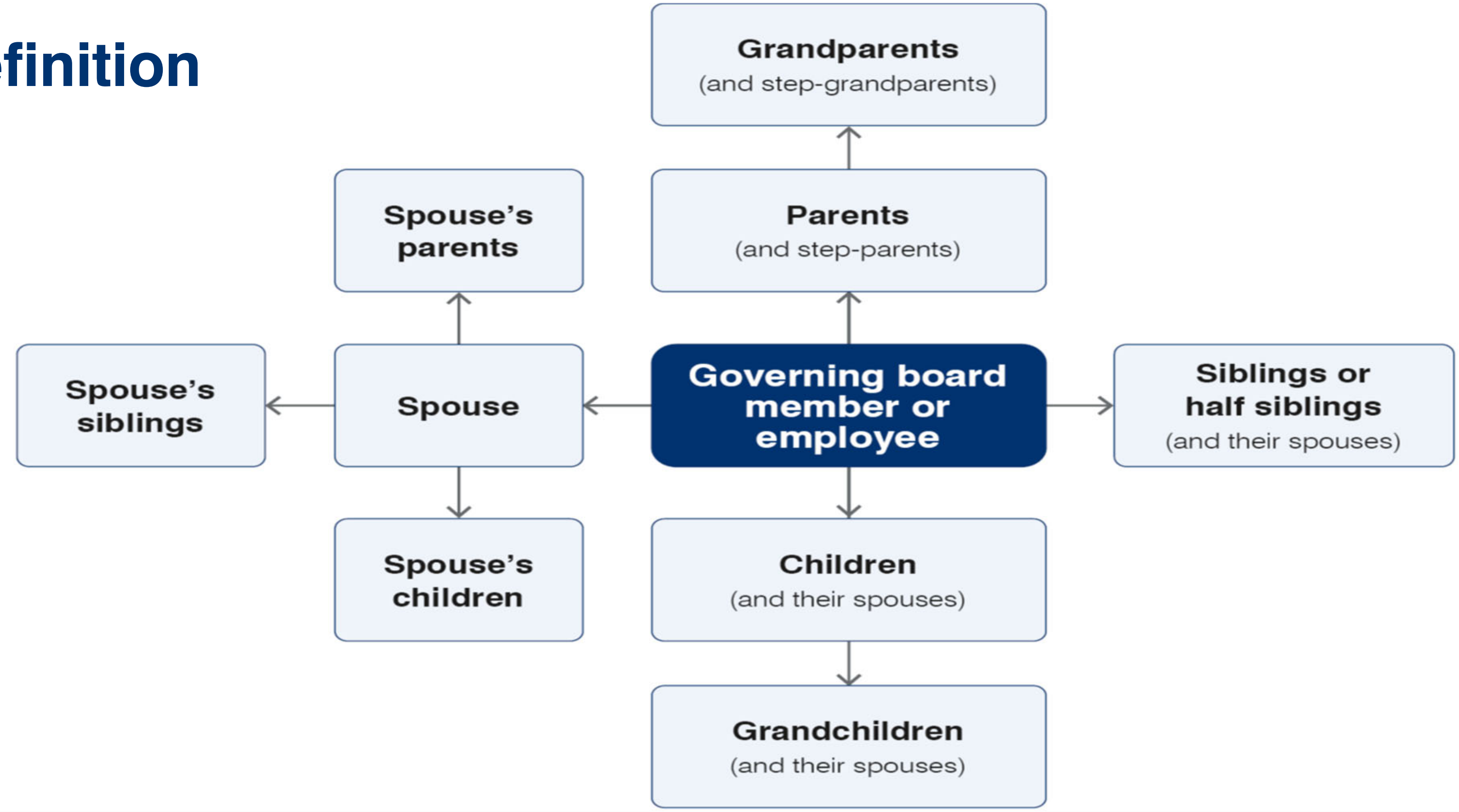
Conflict of Interest

Definitions

- Employee
- Relative
- Substantial interest
- Remote interest
- Make known
- Refrain from participating

Conflict of Interest

Statutory definition of a relative



Conflict of Interest

Definitions

- Employee
- Relative
- Substantial interest
- Remote interest
- Make known
- Refrain from participating

Conflict of Interest

Policies

- Should include at a minimum:
  - Require conflict of interest statements to be filed annually:
    - Personal conflict
    - Relative's conflict
  - Develop COI form.
  - Maintain file for public inspection.
  - Management review and remediation process.
  - Annual training.

Conflict of Interest

Training procedures

- Annual Training should include:
  - District COI policy.
  - Substantial interest vs. remote interest.
  - Definition of a “relative”.
  - COI disclosure form.
  - COI statutes applicability.
  - Refrainment.
  - Penalties: A.R.S. §§38-503 through 38-505.

Conflict of Interest

Disclosure procedures

- All employees and board members should:
  - Complete a COI disclosure within 5 days upon hire or taking office.
  - Update COI disclosure annually.
  - Update COI disclosure within 15 days when job responsibilities change and it affects their previous COI disclosure.
- Districts may establish electronic methods for COI disclosure.
  - Enable features to ensure form fields are completed correctly.
  - Should include an authentication method, such as log in for completion.

Conflict of Interest

Remediation procedures

- Eliminate the potential that the COI could affect or influence an employee’s or board member’s official conduct.
- Management should review all completed COI disclosures and document remediation procedures for both:
  - Personnel conflicts.
  - Vendor conflicts.
- Consider consulting legal counsel when determining remediation required.
- District should notify applicable district departments and personnel of the remediation plan and requirements for refraining from participation.

Conflict of Interest

Remediation procedures

- Personnel conflicts
  - A governing board member or employee's relative is employed or considering employment at the district.
  - Must refrain from participating in recommendation, discussion, procurement, approval, administration, or payment decisions or actions for the vendor.
- Example:
  - District hires a teacher whose parent is a school principal within district.
  - Remediation:
    - Assign the teacher to a different school site from the principal.
    - Reassign supervisory or approval responsibilities, as necessary.

Conflict of Interest

Remediation procedures

- Vendor conflicts
  - The governing board member or relative has a substantial interest in a vendor that provides goods and/or services to the district.
  - Must refrain from participating in vendor selection, approving vendor payment, or discussing any decision regarding vendor.
- Example:
  - District wants to contract plumbing company owned by a board member.
  - Remediation:
    - Board member must refrain from participating in any manner related to potential vendor relationship:
      - Vendor selection discussions, contract approval, approving vendor payments.

Conflict of Interest

CONFLICT-OF-INTEREST DISCLOSURE FORM

Arizona law requires school district governing board members and employees to disclose a substantial interest they or their relative(s) have in any district contract, sale, purchase, service, or decision and refrain from participating in such contract, sale, purchase, or decision. A conflict of interest (COI) occurs when a public officer or employee does not follow those requirements and instead uses their official position to secure a valuable benefit for themselves or relatives that would not ordinarily accrue to them in the performance of their official duties. An individual has a substantial interest that must be disclosed when:

- They have a relative who works for the school district (personnel conflict).
- They or their relatives have a direct or indirect, nonspeculative financial or ownership interest in a business or organization that does or may provide goods or services to the school district (vendor conflict).

Relative is defined in A.R.S. §38-502 as a spouse, child, child's child, parent, grandparent, brother or sister of the whole or half blood and their spouses and the parent, brother, sister, or child of a spouse. For a governing board member this does not include a relative that is not a dependent, as defined in section A.R.S. §43-1001, based on the defined remote interests in A.R.S. §38-502(10).

If you have questions about whether or not a conflict exists, please consult your supervisor and department policies for guidance.

[ENTER DISTRICT NAME]

Name: ______________________________ Date: ______________

Type of disclosure: ☐ Initial ☐ Annual ☐ Update

Select one of the following:

☐ I am a District employee (includes full-time, part-time, or contract basis).

☐ I am a District governing board member.

Job title (for District employees only): ______________________________

Please initial below to confirm you have read and understand each of the following statements.

________ I understand my responsibility for disclosing my and my relative's conflicts of interest as required by A.R.S. §38-503 and [DISTRICT NAME] policy XXXX.

________ I understand the statutory consequences for noncompliance with conflict-of-interest requirements as specified in A.R.S. §38-510 as well as any additional consequences imposed in accordance with [DISTRICT NAME] policy XXXX.

________ I agree to comply with all conditions or restrictions the District imposes regarding my involvement in matters for which I or my relative have a conflict of interest.

________ If I become aware of any changes to my or my relative's conflicts of interest, I agree to submit an updated disclosure form and make District management aware within fifteen (15) days of the change.

Disclosures

Select one of the following:

☐ I or my relative has **no** substantial interest in any contract, sale, purchase, service, or decision of [DISTRICT NAME].

☐ I or my relative has a substantial interest in a contract, sale, purchase, service, or decision of [DISTRICT NAME]. **(If this box is checked, you must fully describe the conflict(s) in the personnel and/or vendor conflict spaces below.)**

Personnel conflicts (Include relative name(s), position/job title, and nature of the relationship/substantial interest)

____
____
____
____
____
____

Vendor conflicts (Include business/organization name(s) and nature of the substantial interest, including whether it applies to you or your relative)

____
____
____
____
____
____

By signing below, I attest that I have completed this disclosure to the best of my knowledge and that my statements are true and complete; if a substantial interest has been disclosed, I will refrain from participating in any manner in any contract, sale, purchase, service, or decision for which I or my relative has a substantial interest.

Printed name ______________________________ Date ______________

Signature ______________________________

Conflict of Interest

Memorialization procedures

- Must maintain all disclosed substantial interests in a special file available for public inspection.
  - Should not include disclosures with no conflict in the same file.
  - Easier for administration and public to review disclosures with substantial interests only, when necessary.

COI Penalties

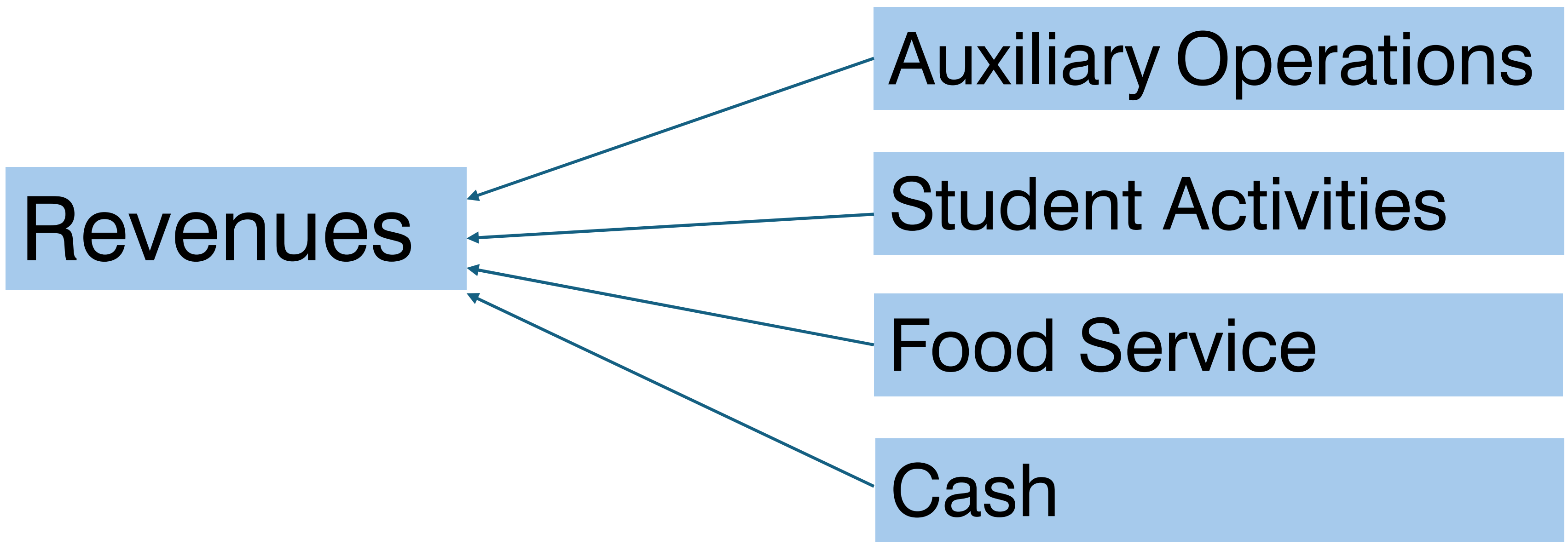
- Class 6 felony
  - Intentionally or knowingly violates A.R.S. §§38-503 through 38-505.
- Class 1 misdemeanors
  - Reckless or negligent violations.
- Must forfeit public office if found guilty.
- Voidable contracts
  - Any contract entered into in violation of A.R.S. §38-501 et seq.

School Finance Advisory Committee Member Input

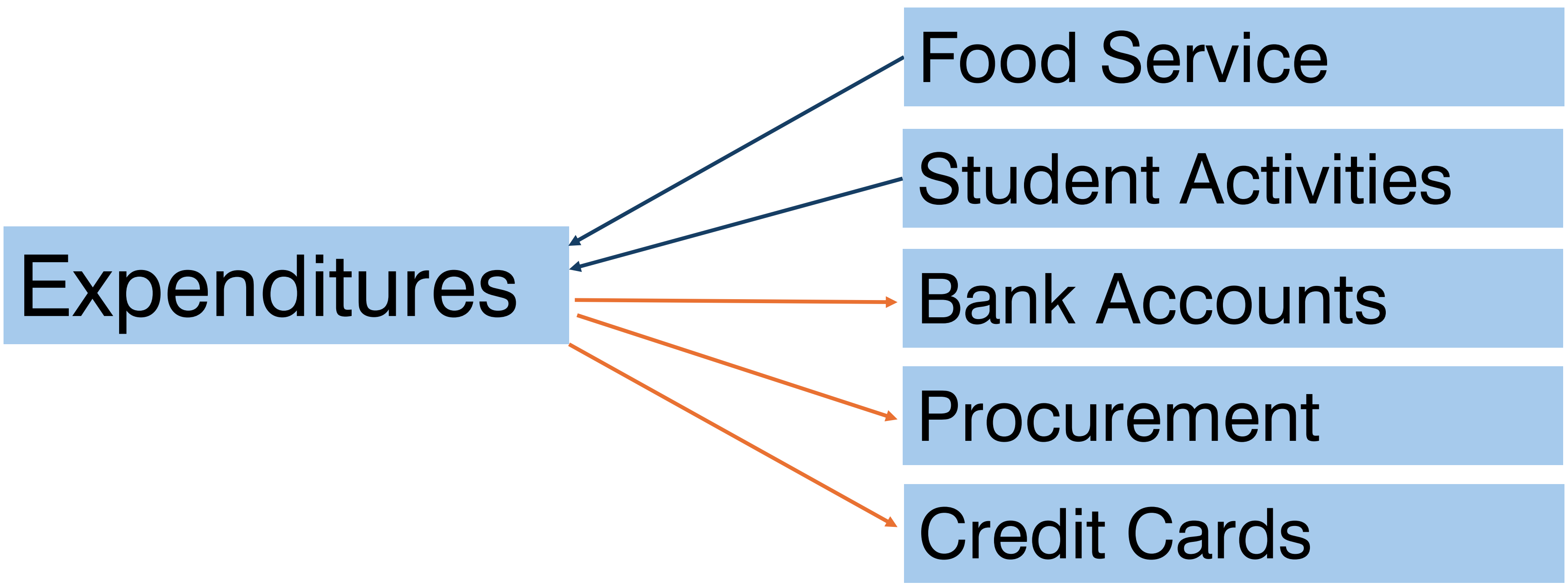
Aimee Manjarres, Pine-Strawberry Elementary School District
Michelle Lenhardt, Vail Unified School District

Reorganized USFR Sections

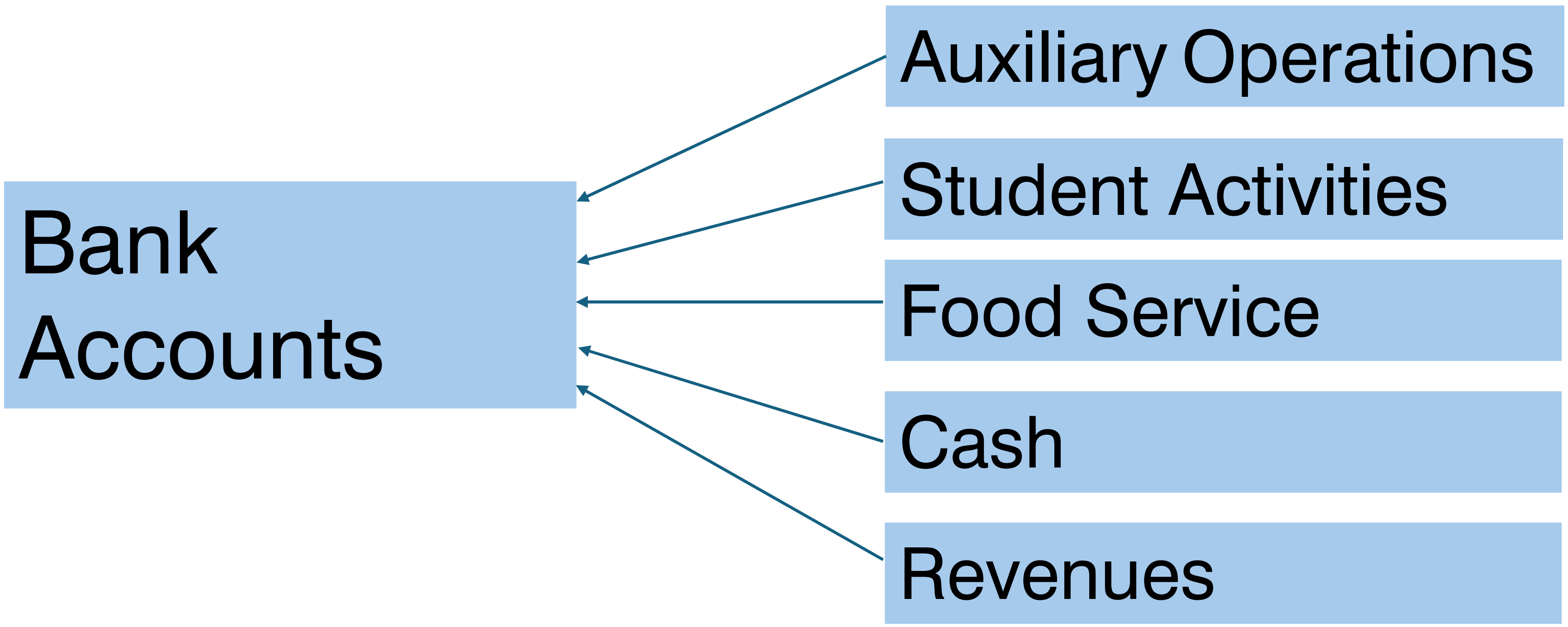
Reorganized USFR Sections



Reorganized USFR Sections



Reorganized USFR Sections

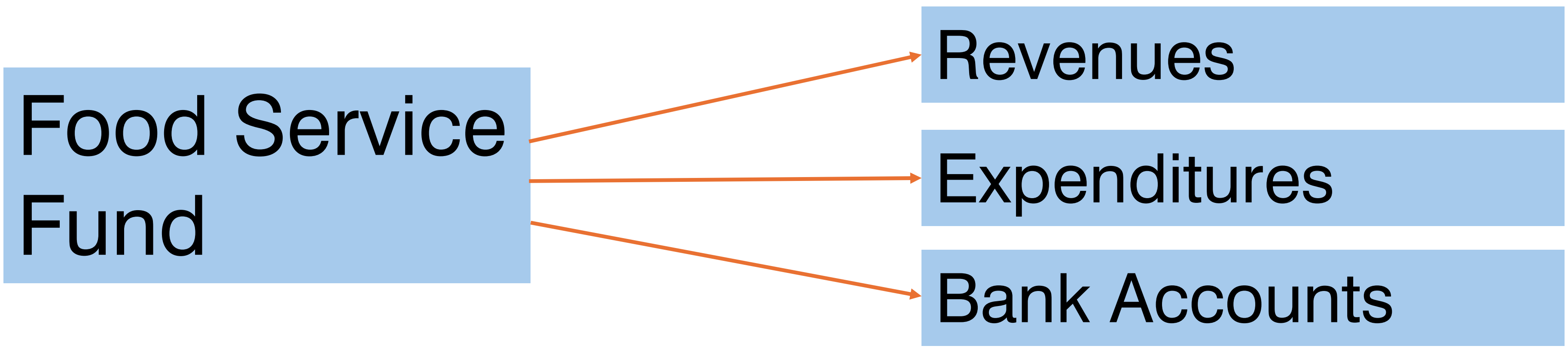


Reorganized USFR Sections

Student Activities Fund

- Revenues
- Expenditures
- Bank Accounts
- Governing Board and Management Procedures

Reorganized USFR Sections



Revised USFR Guidance

Revised USFR Guidance

- Chart of Accounts (COA)
- Bank accounts
- Revenues
- Procurement

Revised USFR Guidance

Chart of accounts

- ESSER Funds and CTE programs that are no longer applicable have been removed:
    - ESSER Funds 227, 228 and 346
    - CTE program 324 – Digital Printing
    - CTE program 328 – Electronic Drafting

Revised USFR Guidance

Bank accounts

- Online banking and deposits:
    - Ensure checks are restrictively endorsed before scanning & depositing.
    - Mark the checks immediately after deposit indicating it has been deposited.
    - Document checks deposited and retain deposit receipt.
    - Safeguard deposited checks in locked area.
    - Destroy deposited checks after the required holding period.
    - Ensure the security of the online banking system.

Revised USFR Guidance

Revenues

- Timely deposits
  - Governing board should establish a threshold that constitutes significant amounts of cash that must be deposited daily.
  - Allows for governing board to adopt a regular deposit schedule longer than weekly.
    - Must be at least monthly to allow all revenues received to be deposited with county treasurer at least monthly.
    - Should describe the reason(s) the alternative schedule is necessary.
    - Should still describe the threshold for significant deposits that must be deposited daily or weekly.

Revised USFR Guidance

Revenues

- Modernized to include online payment guidance:
  - Governing board approval of online payment system types.
    - Must have adequate controls to meet the requirements of the section and should only be deposited into district accounts.
    - Clarifies districts should not use peer-to-peer mobile apps such as Zelle, Venmo, or Cash App based on inadequate controls available.
- Recommend a governing board establish a significance threshold for deposits.
  - Provides clarity for district employees on expectations.

Revised USFR Guidance

Procurement

- Minimum written quote threshold increased to $15,000 – to align with changes to federal grant requirements.
- Added excerpts from Procurement Rules – to assist with district awareness of existing requirements for which we see frequent deficiencies.
- Clarified guidance on like-items analysis – to help districts establish clear analysis processes.
- New sample forms:
  - Procurement forecasting template.
  - Sole source written determination.
  - Emergency procurement written determination.

Revised USFR Guidance

Like items

- Document classification methods used such as:
  - Commodity or category codes.
  - District defined item categories or grouping structures.
  - Standardized item description or naming conventions.
  - Functional groupings based on how items are used or vendors group items for pricing consideration.
  - Other documented methods identifying similar type, purpose, or function
- Classification methods should enable districts to:
  - Identify purchases belonging to the same type or category.
  - Include all purchasing methods and determine total spending.
  - Support a reasonable conclusion of like-item determinations.

Governing board and management procedures

Questions

- Are districts required to use the sample forms provided in the USFR, such as the COI disclosure form, revenue collection forms, and procurement forecasting template?
  - **Answer:** No. The sample forms are provided as illustrative examples and resources for districts that do not want to create their own forms. District that create their own forms should ensure their forms include all required internal control elements described in the USFR guidance.

School Finance Advisory Committee Member Input

Aimee Manjarres, Pine-Strawberry Elementary School District
Michelle Lenhardt, Vail Unified School District

FY 2027 Compliance Questionnaire

To be issued this Fall:

Will include	Won't include

• Rearranged questions.
• Modified timely deposit question.
• Modified written quotations question.
• Modified online bank account access question.
• Modified expenditure approval question.
	• Additional questions about:
	  • Specific board-adopted policies.
	  • Like-items analysis.
	  • Food purchases.
	  • Conflicts of interest.
	  • Delegation.

FY 2028 Planned USFR Updates

FY 2028 Planned Updates

- Information Technology.
- Cooperative Agreements and Regional Services.
- Chart of Accounts – pending federal chart updates.
- Travel – guidance on exception policies and procedures.

Resources

Accountability Services Division
(602) 977-2796

asd@azauditor.gov

www.azauditor.gov/resources/school-districts/faqs