



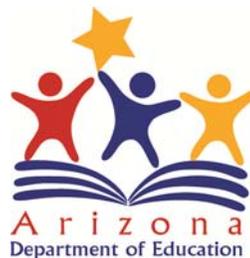
Arizona Department of Education

The Audit Unit
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Average Daily Membership Audit Report Madison Elementary School District Fiscal Years 2008, 2009 and 2010

Report Number—11-2

May 20, 2011



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The Audit Unit

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May 20, 2011

Superintendent Tim Ham
Madison Elementary School District
5601 N 16th Street
Phoenix, AZ 85016

Dear Superintendent Ham:

The Arizona Department of Education Audit Unit has conducted an audit of the Madison Elementary School District's Average Daily Membership for Fiscal Years 2008, 2009 and 2010. The purpose of the audit was to address whether the District properly reported student enrollment and attendance, offered students sufficient statutorily-mandated instructional hours and to determine if it received the correct amount of Basic State Aid.

The audit found that the District did not accurately report some enrollment to ADE and did not provide some students with the statutorily required number of instructional hours. Additionally, auditors verified the accuracy of some student data corrections submitted by the District to ADE. As a result of the District's practices and data corrections, the District will receive about \$45,000 in underpaid Basic State Aid.

A.R.S. § 41-1092.03 provides the District the opportunity to appeal the audit within 30 days after issuance. Appendix A in the report outlines rules governing the appeals process.

We appreciate the excellent cooperation and assistance provided by the District's administration and staff during the course of the audit. My staff will be pleased to discuss or clarify items in the report.

Sincerely,

Arthur E. Heikkila
Chief Auditor

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INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) has conducted an Average Daily Membership (ADM) audit of the Madison Elementary School District (District), pursuant to the provisions of A.R.S. § 15-239. This audit focused on whether the District accurately reported enrollment and attendance data to ADE and whether sufficient instructional hours were provided to students for FY2008, FY2009 and FY2010.

Average Daily Membership audit conducted—ADM audits help ensure the appropriate distribution of Basic State Aid provided annually to school districts and charter schools. Districts receive Basic State Aid based on several factors related to student attendance. To receive funding, school districts and charter schools report enrollment and attendance data to ADE’s Student Accountability Information System (SAIS). ADE then processes that data, determines payment amounts according to the relevant statutory funding formulas and distributes payments to school districts and charter schools up to twelve times each year.

Audit and appeal processes—The ADM audit process determines whether payments were correct or if an adjustment is needed pursuant to A.R.S. § 15-915, and provides for an appeal process if the school district or charter school disagrees with the audit findings. ADM audits compare the school district’s or charter school’s information reported to SAIS to information found on the original records kept at the school district or charter school. If the audit finds that the school district’s or charter school’s reported information does not match the original documentation, the audit will identify and report the funding adjustment needed to Basic State Aid. These funding adjustments can be positive or negative, depending upon the audit findings.

The audit is an appealable action. A.R.S. § 41-1092.03 provides the audited school district or charter school that disagrees with the audit findings the opportunity to file a formal appeal within thirty (30) days after the report was issued. If an appeal is filed, the school and ADE may reach agreement in an informal settlement conference. If not, the appeal will be adjudicated by the Office of Administrative Hearings. When the audit is finally settled or adjudicated, if ADE has determined that a school district or charter school received excess Basic State Aid, A.R.S. § 15-915 directs that corrections to schools’ funding be made in the current budget year. In case of hardship, schools may request that the Superintendent of Public Instruction allow a correction to be made partly in the current budget year and partly in the following budget year.

District financial and other information—The District has eight schools in the Phoenix area and offers education ranging from preschool and kindergarten programs to the 8th grade. Table 1 (see page 2) presents the District’s student, staffing and financial information for FY2008, FY2009 and FY2010.

Table 1
Madison Elementary School District
Students, Staffing, Revenues and Expenditures
FY2008, FY2009 and FY2010
(Unaudited)

	FY2008	FY2009	FY2010
Students Enrolled	5,614	5,759	5,826
Total Teachers	262	297	294
Revenue			
Local	\$37,522,212	\$38,164,149	\$38,389,815
State	12,409,886	12,556,958	10,558,284
Federal	3,602,596	4,086,914	4,831,841
Total Revenues	<u>53,534,694</u>	<u>54,808,020</u>	<u>53,779,940</u>
Total Expenditures	<u>\$66,542,825</u>	<u>\$61,210,426</u>	<u>\$60,594,228</u>

Source: "Annual Report of the Arizona Superintendent of Public Instruction" for FY2008, FY2009 and FY2010.

SCOPE AND METHODOLOGY

The audit focused on whether the District accurately reported enrollment and attendance data to ADE, provided sufficient instructional hours to students and received the correct amount of Basic State Aid in accordance with statutes, the Uniform System of Financial Reporting (USFR) and its own policies and procedures. Auditors reviewed this information for FY2008, FY2009 and FY2010.

To conduct this audit, auditors used a variety of methods, including examining District and SAIS records for enrollment and attendance. Auditors also reviewed state statutes and District policies and procedures and interviewed District management and staff.

Additionally, auditors performed specific tasks for the following areas:

- **Enrollment and Attendance**—To determine whether the District reported student enrollment and attendance information accurately to ADE and received the correct amount of Basic State Aid, auditors reviewed each student’s attendance and enrollment information for each fiscal year audited for all school sites. Auditors then calculated what the ADM for the District should have been and compared it to the ADM that the District received funding for in each fiscal year.
- **Instructional Hours Requirement**—To determine whether the District met the statutory instructional hours requirement, auditors obtained academic calendars and bell schedules from each of the school sites that offered instruction to students in grades 7 and 8 for FY2008, FY2009 and FY2010. Auditors reviewed all of grades 7 and 8 and randomly sampled any other grades offered at the school during the fiscal year audited. Auditors then compared the District’s academic calendars and bell schedules to the requirements mandated by statute.
- **District-submitted Data Changes**---Auditors also verified the accuracy of some FY2010 enrollment data that the District resubmitted to ADE. A.R.S. § 15-915 allows school districts or charter schools to revise their previous years’ data. The District had identified classification errors for 13 of its special education students. Auditors reviewed Individualized Education Program documents in these student files to determine whether the District submitted the correct classification.

The Audit Unit expresses its appreciation to the Madison Elementary School District’s administration and staff members for their cooperation and assistance throughout the audit.

FINDING 1: THE DISTRICT DID NOT ACCURATELY REPORT SOME STUDENT ENROLLMENT DATA TO ADE

Auditors identified enrollment errors that resulted in inaccurate reporting and funding of the District’s ADM for all three fiscal years audited. Specifically, the District reported some students who did not attend the District to ADE in two years, while in another year, some students enrolled in the District were not reported to ADE. For the three fiscal years, these errors resulted in over-reported ADM of 30.02 and an overfunding of \$60,734.32.

Errors Resulted in Inaccurate ADM Reporting

The audit found that the District’s ADM was overstated in FY2008 and FY2009 and was understated in FY2010. The reason for the FY2008 and FY2009 overstatement was due to the District claiming enrollment for students who had withdrawn from the District either during the summer or early in the school year. Although the District eventually removed these students from the District’s enrollment and attendance system, the District did not submit these changes to ADE and thus continued to inappropriately receive funding for the students.

In contrast, the District had several students in FY2010 who attended the District but were not reported to ADE. Because the District did not ensure that these students were in SAIS, these students were not included in the District’s funded ADM. This resulted in the District’s ADM being understated for FY2010. In the future, the District should ensure that the student data it reports to ADE is accurate.

As shown in Table 2, student reporting errors resulted in a net ADM overstatement of 13.55 and 25.65 for the District for FY2008 and FY2009, respectively. It also resulted in a net ADM understatement of 9.18 for FY2010.

Table 2

**Madison Elementary School District
ADM Adjustments Due to Enrollment Errors
FY2008, FY2009 and FY2010**

	FY2008	FY2009	FY2010
Funded ADM	5,032.51	5,178.43	5,293.03
Audited ADM	5,018.96	5,152.79	5,302.22
ADM Adjustment	13.55	25.65	(9.18)

Source: Auditor analysis of District records and ADE SAIS data for FY2008, FY2009 and FY2010.

The District Was Overpaid \$60,734.32 For the Three Fiscal Years Audited

The District did not receive the appropriate amount of Basic State Aid for the three fiscal years audited due to the inaccurate enrollment information reported to ADE. The net overall ADM reported by the District was overstated by 30.02, which led to an overpayment of \$60,734.32 for the three fiscal years audited. Table 3 shows the ADM and funding adjustments required for the District for FY2008, FY2009 and FY2010.

Table 3

Madison Elementary School District ADM and Funding Adjustments FY2008, FY2009 and FY2010

	ADM Adjustment	Funding Adjustment
FY2008	13.55	\$59,960.15
FY2009	25.65	97,236.15
FY2010 ¹	<u>(9.18)</u>	<u>(96,461.98)</u>
Total	<u>30.02</u>	<u>\$60,734.32</u>

¹ The funding adjustment for FY2010 includes additional growth that was due to the District as a result of the ADM understatement.

Source: Auditor analysis of District records and SAIS data for FY2008, FY2009 and FY2010.

Recommendations:

1. ADE needs to recoup \$60,734.32 in overfunding based on student enrollment data that the District incorrectly reported to ADE.
2. The District should ensure that the student enrollment data it reports to ADE is accurate.

FINDING 2: THE DISTRICT WAS OVERPAID MORE THAN \$32,000 AS A RESULT OF NOT PROVIDING ENOUGH INSTRUCTIONAL HOURS

The District did not provide the statutorily-required minimum number of instructional hours to its 7th and 8th grade students at two schools for the three fiscal years audited. As a result, the District was overpaid in excess of \$32,000 in Basic State Aid. Pursuant to A.R.S. § 15-915, ADE should recover these monies from the District, and the District needs to ensure its bell schedules provide students with at least the minimum number of statutorily-required instructional hours.

Some 7th and 8th Grade Students Were Not Provided the Statutorily-Required Minimum Instructional Hours

Although all school districts and charter schools are required by statute to provide a minimum number of instructional hours to students, the District did not meet this requirement for its 7th and 8th grade students at two of its schools for FY2008, FY2009 or FY2010. Specifically, A.R.S. § 15-901 (A) (2) (b) (i) requires that school districts and charter schools provide at least 1,068 instructional hours for 7th and 8th grade students during the audited fiscal years. However, as shown in Table 4, the District did not meet this statutory requirement for all of its students.

Table 4

**Madison Elementary School District
7th and 8th Grade Audited ADM, ADM Overstatement Due to Insufficient
Instructional Hours and Funding Adjustment
FY2008, FY2009 and FY2010**

Fiscal Year	7th and 8th Grade Audited ADM¹	ADM Overstated Due to Insufficient Instructional Hours	Funding Adjustment
FY2008	1,096.15	3,449	\$15,263.31
FY2009	1,113.70	2,889	\$10,953.25
FY2010	<u>1,119.26</u>	<u>1,476</u>	<u>\$ 6,609.03</u>
Total	<u>3,329.11</u>	<u>7,814</u>	<u>\$ 32,825.59</u>

¹ The Audited ADM amount is adjusted to account for the enrollment adjustments in Finding 1 (see pages 4 and 5) and only includes 7th and 8th grade students attending the District in each fiscal year.

Source: Auditor analysis of SAIS and District student data for FY2008, FY2009 and FY2010.

Auditors analyzed the District’s bell schedules and calendars for all grades and compared them to the statutory requirements. Auditors sampled bell schedules and calendars for students in grades 4 through 6 in addition to grades 7 and 8 and found that the District provided at least the minimum number of

instructional hours for those grade levels. However, the District failed to provide the minimum number of instructional hours to its 7th and 8th grade students at two of its three schools offering classes for those grades, as shown in Table 5.

Table 5

**Madison Elementary School District
7th and 8th Grade Students at Madison #1, Meadows and Park Schools
Instructional Hours Offered, Instructional Hours Required
and Percentage of Required Hours Offered
FY2008, FY2009 and FY2010**

Fiscal Year	Instructional Hours Offered	Instructional Hours Required	Percentage Of Required Hours Offered
Madison #1			
FY2008	1,066.27	1,068	99.84%
FY2009	1,064.68	1,068	99.69%
FY2010	1,067.57	1,068	99.96%
Meadows			
FY2008 7 th Grade	1,065.20	1,068	99.74%
FY2008 8 th Grade	1,056.20	1,068	98.90%
FY2009 7 th Grade	1,067.02	1,068	99.91%
FY2009 8 th Grade	1,060.77	1,068	99.32%
FY2010 7 th Grade	1,067.90	1,068	99.99%
FY2010 8 th Grade	1,061.65	1,068	99.41%
Park			
FY2008	1,074.87	1,068	100.64%
FY2009	1,071.90	1,068	100.37%
FY2010	1,077.87	1,068	100.92%

Source: Analysis of District bell schedules and A.R.S. § 15-901.

In addition to not providing sufficient instructional hours, the District did not provide the statutorily required number of instructional days for some of its students. Auditors determined that at one of the schools audited, the instructional hour shortage was partially a result of not providing at least the minimum number of instructional days as required by law. Pursuant to A.R.S. § 15-341.01, each school district and charter school must provide instruction for at least 180 days each school year. However, auditors found that the Meadows school did not meet this statutory requirement. Specifically, for each of the three fiscal years audited, 8th grade students were required to attend only 179 days.

District Limited Educational Opportunities for Some Students

Since the District provided fewer instructional hours than required by statute for some of its 7th and 8th grade students, it inappropriately limited the amount of instructional time for its students' education.

Assuming that more time spent in the classroom results in a better education, some of the District's students received fewer educational opportunities because the District did not provide all of its students with the statutorily-required minimum number of instructional hours.

The District was Overpaid \$32,825.59 in Basic State Aid Funding

As a result of providing insufficient instructional hours for some of its 7th and 8th grade students during each of the fiscal years audited, the District's ADM was overstated, resulting in the District being overpaid Basic State Aid by \$32,825.59.¹ As shown in Table 4 (see page 6), for each of the three fiscal years audited, the District's insufficient instructional hours resulted in ADM being overstated by a total of 7.814, requiring the District's Basic State Aid to be reduced by \$32,825.59. In the future, the District should annually review its bell schedules and calendars to ensure that it provides at least the statutorily-required minimum number of instructional hours.

Recommendations:

1. ADE needs to recoup \$32,825.59 in overpaid Basic State Aid from the District.
2. The District should annually review its bell schedules and calendars to ensure that it provides at least the statutorily-required minimum number of instructional hours in the future.

¹ ADE Guideline GE-18 provides directions for determining the ADM adjustment based on insufficient instructional hours. According to the Guideline, "If District districts or charter holders are not in compliance with the requirements for annual classroom instruction hours pursuant to A.R.S. §§ 15-901(A)(2)(a), (b) and (c), then annual equalization funding will be prorated accordingly. Example: A District with deficient annual hours will have their reported membership decreased based on the actual amount of instruction hours provided compared to the required annual hours. For instance, a District that provides 90 percent of the required hours will have the reported membership days reduced by 10 percent, thus ADM will be reduced by 10 percent. Annual equalization will be based on this revised ADM."

OTHER PERTINENT INFORMATION: AUDIT UNIT

VALIDATION OF DISTRICT-SUBMITTED DATA CHANGE REQUEST

During the course of the audit, auditors also tested and verified the accuracy of student data corrections submitted by the District to ADE pursuant to A.R.S. § 15-915, which allows school districts and charter schools to submit corrections to their student data for up to three previous fiscal years.²

The District submitted a formal request to ADE to change its FY2010 data to correct 37 students' special education status. The District had originally submitted these students' data to SAIS. However, SAIS had rejected the majority of these students' disability categories during its "integrity" check, which is one of the system's features designed to identify and reject problematic student data. Although an integrity check error report was provided by ADE, the District did not make the appropriate changes within the fiscal year, and thus requested a data correction as allowed by A.R.S. § 15-915.³

Auditors reviewed information provided by the District and verified that the special education codes submitted by the District for 13 of the students were not funded appropriately.⁴ Specifically, auditors reviewed student files to determine that the special education code developed for the students through the Individualized Education Program process matched the special education code submitted by the District to ADE.

As shown in Table 6 (see page 10), the 13 students not funded as special education students had a total unweighted ADM underreporting of 9.91. Since each special education category receives a weight, the weighted ADM for these students was underreported by 36.17. This resulted in a total underfunding of the District by \$138,973.22, which ADE needs to provide to the District.⁵

² A.R.S. §15-915 allows schools to make a downward correction to its ADM for the previous three years and an upward correction to its ADM for the previous year.

³ Although ADE's data system provides reports for school districts and charter schools showing which, if any, students were rejected by the system, the District neglected to review these reports and make the necessary corrections. Specifically, the District should have identified that these special education students did not have their special education status accurately reported to ADE. In the future, the District should regularly review these reports to identify any students for whom the system rejects so that any corrections can be made in a timely manner.

⁴ The other 24 students submitted by the District were either already funded appropriately or enrolled after the 100th day, and so would not be funded.

⁵ A weight is a statutorily-established multiplier of a student's Basic State Aid funding amount (A.R.S. § 15-943) that is applied to students who meet specified criteria, such as designated special education categories. These weights generate additional funding to provide educational services to students with special needs.

Table 6

**Madison Elementary School District
ADM and Funding Adjustments Due to
District-submitted A.R.S. § 15-915 Changes
FY2010**

Special Education Categories	Number of Students	Unweighted ADM	Weight	Weighted ADM	Funding Adjustment
MD-SC, A-SC, SMR-SC	2	1.67	5.833	9.74	\$ 37,422.07
OI-SC	1	1.00	6.773	6.77	26,019.59
DD, ED, MIMR, SLD, SLI, OHI	4	3.16	0.003	0.01	36.42
EDP	4	2.70	4.822	13.02	50,016.15
VI	<u>2</u>	<u>1.38</u>	4.806	<u>6.63</u>	<u>25,478.99</u>
Total Adjustment	<u>13</u>	<u>9.91</u>	N/A	<u>36.17</u>	<u>\$138,973.22</u>

Source: Auditor analysis of District records and SAIS data for FY2010.

ADM FUNDING ADJUSTMENTS

This audit identified an overall funding adjustment of \$(45,413.31) for the three fiscal years audited:

- \$60,734.32 for enrollment errors as determined by the audit;
- \$32,825.59 for insufficient instructional hours as determined by the audit; and
- \$(138,973.22) for correcting the District’s inaccurate special education reporting as determined by verifying the accuracy of the District’s FY2010 data re-submission request.

Additionally, statutes and rules provide for a formal appeal process through the Office of Administrative Hearings if the District disagrees with the audit results. The District has thirty (30) days from the issuance of the audit report to request an appeal. Appendix A (see page a-i) presents rules that govern the appeal process.

Table 7 lists the ADM adjustments and associated Basic State Aid adjustments for the District for FY2008, FY2009 and FY2010.

Table 7

**Madison Elementary School District
Total ADM and Funding Adjustments Required for
FY2008, FY2009 and FY2010**

	FY2008		FY2009		FY2010		Total Adjustment
	ADM Adjustment	Funding Adjustment	ADM Adjustment	Funding Adjustment	ADM Adjustment	Funding Adjustment	
Audit							
Enrollment	13.55	\$59,960.15	25.65	\$ 97,236.15	(9.18)	\$ (96,461.98)	\$ 60,734.32
Instructional Hours	3.45	15,263.31	2.89	10,953.25	1.48	6,609.03	32,825.59
Total Audit	17.00	\$75,223.46	28.54	\$108,189.40	(7.70)	\$ (89,852.95)	\$ 93,559.91
District Data Submission Validation							
Data Resubmission	0.00	0.00	0.00	0.00	(36.17) ^a	(138,973.22)	(138,973.22)
Total	17.00	\$75,223.46	28.54	\$108,189.40	(43.87)	\$(228,826.17)	\$(45,413.31)

^a This is the special education weighted ADM Adjustment.

Source: Auditor analysis of SAIS and District student and financial data for FY2008, FY2009 and FY2010.

APPENDIX A

State Rules for Appealing Audits

The audit determination pursuant to A.R.S. § 15-915 is an agency action for which you can file an appeal. The audit report and cover letter, along with this information, serves as notice of your appeal rights under A.R.S. § 41-1092.04. Your right to a hearing and right to an informal settlement conference are described below in the Arizona Revised Statutes.

A.R.S. § 41-1092.03. Notice of appealable agency action or contested case; hearing; informal settlement conference; applicability

- A. Except as provided in subsection D of this section, an agency shall serve notice of an appealable agency action or contested case pursuant to section 41-1092.04. The notice shall:
 - a. Identify the statute or rule that is alleged to have been violated or on which the action is based.
 - b. Identify with reasonable particularity the nature of any alleged violation, including, if applicable, the conduct or activity constituting the violation.
 - c. Include a description of the party's right to request a hearing on the appealable agency action or contested case.
 - d. Include a description of the party's right to request an informal settlement conference pursuant to section 41-1092.06.
- B. A party may obtain a hearing on an appealable agency action or contested case by filing a notice of appeal or request for a hearing with the agency within thirty days after receiving the notice prescribed in subsection A of this section. The notice of appeal or request for a hearing may be filed by a party whose legal rights, duties or privileges were determined by the appealable agency action or contested case. A notice of appeal or request for a hearing also may be filed by a party who will be adversely affected by the appealable agency action or contested case and who exercised any right provided by law to comment on the action being appealed or contested, provided that the grounds for the notice of appeal or request for a hearing are limited to issues raised in that party's comments. The notice of appeal or request for a hearing shall identify the party, the party's address, the agency and the action being appealed or contested and shall contain a concise statement of the reasons for the appeal or request for a hearing. The agency shall notify the office of the appeal or request for a hearing and the office shall schedule an appeal or contested case hearing pursuant to section 41-1092.05, except as provided in section 41-1092.01, subsection F.
- C. If good cause is shown an agency head may accept an appeal or request for a hearing that is not filed in a timely manner.
- D. This section does not apply to a contested case if the agency:
 - a. Initiates the contested case hearing pursuant to law other than this chapter and not in response to a request by another party.

- b. Is not required by law, other than this chapter, to provide an opportunity for an administrative hearing before taking action that determines the legal rights, duties or privileges of an applicant for a license.

A.R.S. § 41-1092.06. Appeals of agency actions; informal settlement conferences; applicability

- A. If requested by the appellant of an appealable agency action, the agency shall hold an informal settlement conference within fifteen days after receiving the request. A request for an informal settlement conference shall be in writing and shall be filed with the agency no later than twenty days before the hearing. If an informal settlement conference is requested, the agency shall notify the office of the request and the outcome of the conference, except as provided in section 41-1092.01, subsection F. The request for an informal settlement conference does not toll the sixty day period in which the administrative hearing is to be held pursuant to section 41-1092.05.
- B. If an informal settlement conference is held, a person with the authority to act on behalf of the agency must represent the agency at the conference. The agency representative shall notify the appellant in writing that statements, either written or oral, made by the appellant at the conference, including a written document, created or expressed solely for the purpose of settlement negotiations are inadmissible in any subsequent administrative hearing. The parties participating in the settlement conference shall waive their right to object to the participation of the agency representative in the final administrative decision.