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DPS deficit could lead to layoffs

District says unusual accounting contributed to \$45 million shortfall.

Doug Guthrie and Jennifer Mrozowski / The Detroit News

DETROIT -- Detroit Public Schools' irregular accounting practices of paying teachers whose salaries and benefits were not budgeted has contributed to a \$45 million deficit that could force additional layoffs, school officials said Friday.

The discovery of the accounting irregularities was made by the Council of Great City Schools, a consortium of urban school districts retained under a grant from the Skillman Foundation to conduct a review of Detroit's school operations.

"It was the opinion of the (review) team that it was an unusual practice that we don't see very often," Michael Casserly, executive director of the schools council, said of the DPS accounting practices. "We were troubled by it."

It's unclear whether the practice is legal or could be in violation of the district's state-mandated Deficit Elimination Plan to erase a \$210 million debt.

During a press conference on the district's mounting fiscal problems, Chief Financial Officer Joan McCray revealed the discovery of the unusual accounting procedure, which she referred to as an "unbudgeted fallout account," used by the district for the last several years to pay teachers whose jobs were declared excess yet who continued to work for the system.

The account has operated separately from the budget, McCray said.

The cost of the surplus teachers' salaries and fringe benefits were then covered at the end of each school year by transferring unspent amounts from other funds to the "fallout account," creating \$30 million to \$60 million in unfunded obligations for the 2007-08 fiscal year, she said.

"It's like when you clean out your closet," said board President Carla Scott. "You discover things and ask, 'How did this stuff get in here?'"

Superintendent Connie Calloway didn't attend the meeting and her spokespeople declined to say where she was.

State hasn't seen review

The Michigan Department of Education couldn't address the legality of the accounting practices because the department hasn't received the review, said spokeswoman Jan Ellis.

If the state's superintendent of public instruction determined the district was in a financial emergency, that could trigger a process in which an emergency financial manager could be appointed by the governor. However, the state and school district said no such plans are in the works.

"We have confidence in Detroit Public Schools officials and are working closely with them to resolve the issues," Ellis said.

Contributing to the mounting budget shortfall, the district also failed to lay off enough teachers to match falling revenues due to school closures and the rapidly falling number of students in the system, Scott said.

The district sent layoff notices to 300 teachers last fall, but more will likely need to be eliminated to balance the budget, she said. Of those laid off, about 150 were recalled, said district spokesman Steve Wasko.

Detroit Public Schools lost nearly 12,000 students this year.

"The teaching staff should have gone down as we closed schools and lost students," said Scott, explaining that layoffs didn't keep pace with declining revenues.

"For the first time in two years, we actually know what's going on. We should have been in crisis mode for the last 10 years."

'Cash cow' no longer

Scott said tighter budget controls on all of the district's spending is sending a message to vendors that the district is no longer a "cash cow."

Scott also vowed to work with the Detroit Federation of Teachers to find ways to reduce payroll.

Union President Virginia Cantrell said in a statement that the union is aware of the deficit and "pleased with what the general superintendent has said -- we don't need to look at placing blame."

Board member Jimmy Womack said he never heard of the unbudgeted fallout account. Once the student enrollment count is verified and it has fallen, teachers are expected to be laid off, he said.

In addition to unbudgeted teacher salaries and benefits, additional expenditures that were not budgeted totaled more than \$102 million, McCray said -- or about 8.5 percent of the district's \$1.2 billion budget.

The district reduced the expected deficit by \$57 million by working with the Michigan Department of Education to use all available resources and maximize the use of all federal funds, McCray said.

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