



March 5, 2026

Winston-Salem/Forsyth County Schools Follow Up

Auditor's Transmittal

The Honorable Josh Stein, Governor
The Honorable Phil Berger, President Pro Tempore
The Honorable Destin Hall, Speaker of the House
Honorable Members of the North Carolina General Assembly
Board of Education, Winston-Salem/Forsyth County Schools
Donald Phipps, Superintendent, Winston-Salem/Forsyth County Schools

To all:

Last August, the North Carolina Office of State Auditor (OSA) released an extensive review into the estimated \$46 million budget deficit at Winston-Salem/Forsyth County Schools (WS/FCS). We found a litany of issues, including a failure to reconcile budgeted and actual revenues and expenditures, inadequate use of suspense accounts, and problematic use of COVID-era funds.

As a result of that report, the State Board of Education voted unanimously to make a finding of incidents of management failures within the school system. In keeping true to our commitment to financial accountability, OSA's Rapid Response Division has completed its follow-up report on WS/FCS, assessing the school system's budgeting and accounting practices for Fiscal Year 2025.

Our updated engagement discovered that in addition to our initial findings, WS/FCS overspent State Public School Fund allotments, understated expenditures to the Winston-Salem/Forsyth County Board of Education by not recording material liabilities in its accounting system for months, and once again did not perform accurate and reliable monthly budget-to-actual reconciliations. WS/FCS also borrowed from the federally funded Child Nutrition Fund without sufficient documentation or formal controls.

Most concerning were the substantial costs kept off-the-books. Our report found approximately \$15 million of expenditures incurred during the fiscal year ended June 30, 2025, were not recorded until September 2025. This was a serious point of discussion during our exit conference with the Winston-Salem/Forsyth County Board of Education and system administration. Leadership discussed steps already taken and their plans for corrective action, but the results of this report show that WS/FCS has not made significant progress in fixing its financial issues and restoring public trust in the school system.

Sustained corrective action requires clear accountability, including defined responsibilities, active oversight, and timely, accurate monthly financial reporting. Failure to enforce accountability and internal controls increases the risk that similar conditions could recur.

Winston-Salem/Forsyth County Schools is meant to serve the public. What we have seen through these two reports is a school system that has not delivered on the financial management expectations that students, parents, and faculty have. Our office will continue to explore further potential state or county action that can be taken to bring additional accountability to WS/FCS. We remain available to provide assistance and guidance moving forward.

Respectfully submitted,



Dave Boliek

State Auditor

WHY WE CONDUCTED THIS REPORT

The Office of the State Auditor (OSA) initiated this special follow-up report to address significant overdrafts incurred by Winston-Salem/Forsyth County Schools (WS/FCS or the District) against State Public School Fund (SPSF) allotments from the North Carolina Department of Public Instruction (DPI) during Fiscal Year (FY) 2025. As of April 30, 2025, WS/FCS's cumulative overdraft reached \$11.33 million, creating significant risks to the SPSF.

This report responds to concerns raised by lawmakers and the public about how these overdrafts developed and persisted from September 2024 through April 2025. The findings contained herein aim to provide a clear explanation of the circumstances and decisions that led to the overdraft and to identify where oversight and internal controls failed to prevent the overdraft or to promptly stop it from growing.

OBJECTIVE

The objective of this report is to assess how WS/FCS's budgeting and accounting practices contributed to its FY 2025 overdraft in the SPSF and the District's resulting interfund loan from its Child Nutrition Fund (CNF). The report examines the magnitude and causes of the overdraft, the status of WS/FCS's budget versus actual reconciliation, and the discovery of WS/FCS's off-the-books accounting practices, along with the associated risks and consequences.

WHAT WE FOUND

1. On September 20, 2024, WS/FCS's Finance Office executed a budget transfer of \$16.99 million (WS/FCS's ledger reflects \$16.89 million) from the Non-Instructional Support Program to the Restart Schools Program. The transfer

WHAT WE FOUND cont.

exceeded the Non-Instructional Support Program's available balance of \$13.92 million, creating an immediate overdraft. By April 30, 2025, the overdraft reached \$11.34 million.

2. During the review period, WS/FCS's Finance Office failed to complete monthly reconciliations of budgeted versus actual revenue and expenditures. As a result, the Finance Office inhibited its own ability to identify variances in a timely manner and to take corrective actions during the fiscal period. OSA identified this issue in its August 2025 report. WS/FCS has taken steps to remedy this internal control deficiency.
3. Throughout FY 2025, WS/FCS kept substantial costs off the books. Such costs were not recorded until September 2025, at which point the Finance Office backdated the costs to June 30, 2025. Because of this practice, WS/FCS understated its expenditures and liabilities in interim financial reports and effectively bypassed internal controls and oversight.
4. WS/FCS's Board of Education (the Board) authorized a zero-interest internal loan from the Child Nutrition Fund for up to \$6 million to cover WS/FCS's cash shortfalls. The loan agreement lacked clear terms for interest, repayment, and penalties, raising concerns about fund integrity and compliance with program guidelines.

BACKGROUND

This report is a follow-up to [OSA's Rapid Response Special Report](#) issued on August 14, 2025, regarding WS/FCS's budget deficit. The August report assessed contributing and determining factors for WS/FCS's FY 2025 budget shortfall and identified control weaknesses. This special follow-up report focuses on WS/FCS's SPSF allotment overdrafts, the status of monthly reconciliations of budgeted versus actual revenue and expenditures, delayed recording of expenditures through the practice of posting "off-the-books" expenditures in "Period 13," and interfund borrowing from the Child Nutrition Fund.

FINDING 1 DETAILS & RECOMMENDATIONS

State Public School Fund Allotment Overdrafts

Financial Impact and Repayment Plan

Each year, DPI allocates State funding to school districts through the State Public School Fund (SPSF). These allocations are organized into distinct categories called Program Report Codes (PRCs), each of which is designated for a specific spending purpose—such as instructional support, transportation, or services for disadvantaged students. Each PRC represents an accounting code used to track expenditures within a particular program, with defined allowable use. School districts are expected to manage their expenditures within the limits of each PRC's budget. North Carolina school districts have flexibility to transfer funds between certain PRCs, subject to State rules and restrictions. However, because the SPSF supports all school districts in North Carolina, responsible management of the SPSF is essential to protecting the integrity of these resources.

During FY 2025, WS/FCS spent beyond its allotments in certain SPSF PRCs—most notably in Non-Instructional Support (PRC-003; July 2024–June 2025) and Disadvantaged Student Supplemental Funding (PRC-024; July 2024–March 2025).¹

On August 27, 2025, WS/FCS paid \$7,925,000.00 to DPI, leaving a remaining balance of \$3,409,545.33.² Penalties were not assessed during FY 2025. On October 28, 2025, the remaining balance was paid in full.³ Appendix A provides a chronology of these events.

PRC-003 Budget Transfer Resulting in an Immediate Overdraft in September 2024

PRC-037 is the program report code for North Carolina's Restart Schools Program. Every applicable Local Education Agency (LEA) is required to make transfers into PRC-037 each year.

DPI provides specific guidance regarding how PRC-037 is to be funded:

"If [a] LEA fail[s] to transfer the appropriate amount, the School Allotments Section shall transfer any remaining balance from PRC-003 (Non-Instructional Support).

¹ Further information is provided in Appendix B.

² [Community Budget Update: September 5 | Winston-Salem/Forsyth County Schools](#).

³ [Winston-Salem/Forsyth County Schools' debt to NCDPI 'paid in full' | The North State Journal](#).

If there are **insufficient funds** in PRC-003 to fulfill the requirement, the remaining balance shall be drawn from PRC-024 (Disadvantaged Student Supplemental Funding).”⁴

This guidance indicates that DPI’s School Allotments Section would only pull **available** funds from PRC-003 to fund PRC-037. Once PRC-003 was drained to \$0.00, the School Allotments Section would then transfer funds from another PRC, if needed, rather than over drafting from PRC-003. Nevertheless, DPI’s allotments system allowed WS/FCS to overdraft from PRC-003, an action that DPI would not have taken according to its own procedures.

Table 1 provides details on the remaining balance and the amount transferred on September 20, 2024.

Table 1: PRC-003 Monthly Expenditures, PRC-003 Allotments, and Overspending Analysis (FY 2025, Amounts in \$)

FY 2025 Month (Col.1)	WS/FCS’s Yearly Cumulative Expenditure in PRC-003 (Col.2)	PRC-003 Allotment ^a (Col.3)	Transfer Executed by WS/FCS on 9/20/2024 (Col.4)	Remaining Balance (Overspent) against PRC-003 Allotment (Col.5) Col.3-Col.2
July	1,048,302.11	16,770,101.00		15,721,798.89
August	3,078,873.38	16,994,123.00		13,915,249.62
September	4,871,590.20	-	(16,994,123.00) ^b	(4,871,590.20)
October	6,686,073.16	1,639,684.00 ^c		(5,046,389.16)
November	8,380,639.65	1,639,684.00		(6,740,955.65)
December	9,881,141.80	1,639,684.00		(8,241,457.80)
January	11,521,791.92	1,639,684.00		(9,882,107.92)
February	13,034,641.26	1,639,684.00		(11,394,957.26)
March	11,994,226.05 ^d	1,640,485.00 ^e		(10,353,741.05)
April	12,975,030.33	1,640,485.00		(11,334,545.33) ^f
May	14,213,635.33	1,640,485.00		(12,573,150.33)
June	15,073,409.34	1,640,485.00		(13,432,924.34)

^a “Allotment” refers to the amount of funding allocated by the North Carolina Department of Public Instruction (DPI) to each school district (Local Education Agency or LEA) for specific purposes during the fiscal year. These funds are distributed from the State Public School Fund and are organized into categories called Program Report Codes (PRCs), each with its own allowable uses (such as instructional support, transportation, or services for disadvantaged students).

^b WS/FCS’s records reflect an amount of \$16,887,078.00.

^c According to information DPI provided to OSA, this is a transfer of allotment initiated by WS/FCS.

^d According to an email from DPI’s CFO on September 23, 2025, the March negative expenditure was the result of journal voucher-based reclassifications, moving expenditures out of PRC-003 to another funding source.

^e According to DPI’s CFO, the increase from February to March is due to an \$801 “Holocaust allocation.”

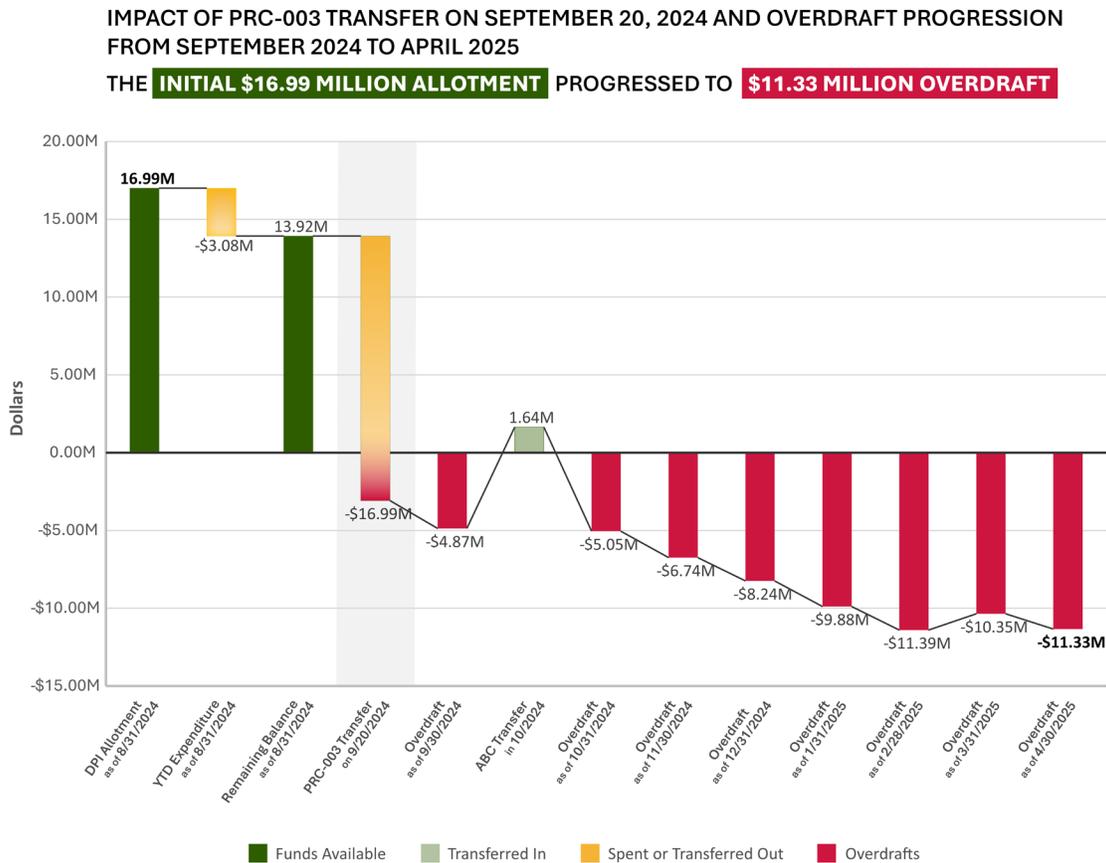
^f DPI manually adjusted May 2025 expenditures during the month-end reconciliation process to prevent WS/FCS from receiving additional cash for expenditures in overdrafted PRCs. The overdraft remained at \$11,334,545.33 as of June 30, 2025.

⁴ Document titled “Instructions for Restart School Transfers” provided to OSA by DPI.

The data presented in Table 1 was provided to OSA by DPI. On September 20, 2025, WS/FCS transferred \$16.99 million, \$2.26 million, and \$1.71 million—totaling \$20.96 million—from PRC-003, PRC-024, and PRC-027 to PRC-037, respectively. The \$11.34 million overdraft resulted from PRC-003 alone; therefore, the transfers from PRC-024 and PRC-027 and their accounting treatment are not discussed in this report.

Figure 1 visually illustrates the effect of the September 20, 2024 transfer, which exceeded the available fund balance in PRC-003, and shows the resulting overdraft from September 2024 through April 2025, at which point DPI capped the overdraft.

Figure 1:



This is a waterfall chart, where each bar represents a specific value as described by its label (rather than a traditional x-axis). A waterfall chart is designed to show how an initial value changes step-by-step due to a series of positive or negative factors, ultimately leading to a final value. In this case, Figure 1 illustrates how the initial \$16.99 million allotment from DPI eventually progressed to an \$11.33 million overdraft, with each step in the chart reflecting the impact of WS/FCS’s expenditures, overspent (overdrafted) amounts, and transfers.

The \$801 Holocaust allocation (additional fund) from March 2025 was not reflected in this chart because it was deemed insignificant.

WS/FCS Delayed Recording the Transfer From PRC-003 to PRC-037 by Approximately Three-and-a-Half Months.

After initiating the September 20, 2024 transfer, WS/FCS failed to timely record the transfer in its accounting system for several months.

Thus, from October 2024 through January 2025, the District's accounting system overrepresented the actual amount of funds available in PRC-003. This delayed recording allowed WS/FCS to continue overspending from PRC-003 based on an inaccurate assumption that PRC-003 still held the \$16.99 million that had been transferred to PRC-037. This reflects a breakdown in WS/FCS's basic budgetary controls, which impeded timely oversight and fiscal discipline.

The Board Approved the Transfer That Was Executed Six Months Earlier.

On March 25, 2025, the Board formally approved the transfer through a budget amendment proposed by WS/FCS's Finance Office.⁵ In doing so, the Board effectively ratified the transfer that had occurred six months earlier. However, the Board approved the transfer without verifying the actual fund availability in PRC-003. This ratification essentially gave the Board's stamp of approval to the initial overdraft, permitting the problem to continue without corrective action.

This retroactive approval of the September 2024 transfer, combined with the Finance Office's delayed recording, created a misleading picture of fund availability and allowed PRC-003 overspending and overdrafts to persist without triggering prompt corrective action.

At the time the Board approved the budget amendment, PRC-003 had been in a deficit for approximately six months, ranging from -\$4.87 million to -\$10.35 million.

DPI's Responses and Then-Existing Controls

According to DPI's 2024–2025 Allotment Policy Manual (Policy), specifically the Allotment Budget Codes (ABCs) Transfer of Funds policy, PRC fund transfers are submitted to DPI's School Allotments Section (Division of School Business), and no financial State Board of Education (SBE) waivers are required.⁶

DPI's then-existing controls failed to prevent WS/FCS from transferring funds out of PRC-003 to PRC-037 in excess of PRC-003's available balance. In March 2025, DPI received WS/FCS's FY 2024 Annual Audit Report and began taking actions to mitigate further overdrafts. In May 2025, DPI denied cash for additional overdrafts, capping WS/FCS's overdrafts from the SPSF at \$11,334,545.33 (the balance as of April 30, 2025). In June 2025, DPI transitioned WS/FCS from cash advance status to cash reimbursement status.⁷ As a result of this transition, WS/FCS did not receive State funds for its June 2025 PRC-003 expenditures.

In written responses to OSA's inquiries about DPI's authority and responsibilities regarding WS/FCS's overdraft of its SPSF allotments during FY 2025, DPI outlined its general role in managing and distributing SPSF allocations. This role includes processing cash requests, overseeing budgets, performing monthly reconciliations of cash requested versus cash used, and reviewing monthly financial reporting for 431 Public School Units (PSUs) and nonprofits. It emphasized its responsibilities under the School Budget and Fiscal Control Act and ongoing system improvements.

In subsequent responses, DPI further explained its monthly financial oversight process and summarized its

⁵ Further information is provided in Appendix D.

⁶ [2024-2025 Allotment Policy Manual Page 21](#). In other words, PRC fund transfers can be approved and processed directly by DPI without having to obtain a separate authorization or waiver from the North Carolina State Board of Education (SBE).

⁷ Further information is provided in Appendix C.

exchanges with WS/FCS regarding the overdraft of PRC-003. DPI stated that it identified and flagged WS/FCS's overspending in PRC-003, communicated with the District's Finance Officer multiple times, and was assured that the issue would be resolved by reallocating funds. DPI followed similar procedures with another LEA, which successfully resolved that District's overage.

OSA's Conclusion

The September 2024 PRC-003 transfer, the Finance Office's delay in recording the transfer until January 2025, and the Board's retroactive ratification of the transfer in March 2025 collectively distorted interim budget versus actual reporting, masked the depletion of funds in PRC-003, allowed overspending to continue without corrective action, and contributed to the accumulation of an \$11.33 million overdraft.

DPI's system did not enforce a PRC-level hard stop or automated fund availability check and instead allowed the transfer to create a negative balance in PRC-003 in September 2024. DPI's monthly oversight processes also failed to halt the growing overdraft in PRC-003 until late in the fiscal year, which allowed the condition to compound.

Recommendations

1. WS/FCS should implement an automated PRC-level fund availability check to gate all budget transfers and amendments.
2. WS/FCS should adopt a formal policy prohibiting the approval of any transfer or expenditures that would create or increase a PRC-level deficit.
3. WS/FCS should coordinate with DPI to ensure that the District's budget records for the State Fund accurately reflect the amount and timing of DPI's allotments.

FINDING 2 DETAILS & RECOMMENDATIONS

Missing Monthly Budget Versus Actual Reconciliations

The District failed to complete monthly budget versus actual reconciliations, which compare an entity's budgeted amounts to actual results for the period and highlight variances that may require action. These monthly reconciliations are generally considered a best practice in financial governance at all levels. For example, guidance recently issued by the Department of State Treasurer to local governments indicates that municipalities should "expect and require monthly financial reports" from their finance officers to ensure effective financial oversight.⁸ While this guidance specifically pertains to local governments, it nonetheless serves as a reference point for the state's public school districts as to the best practices in financial governance.

During our review period, WS/FCS's Finance Office failed to provide OSA with a monthly reconciliation that ties estimated revenue and budgeted expenditures to actual activities by revenue source and fund—a critical control designed to ensure budget accuracy and operational accountability.

Without this control in place, WS/FCS cannot verify that monthly receipts from all revenue sources are complete and accurate or that spending remains within approved budgets. Potential underpayments to the

⁸ [NC Treasurer PowerPoint Presentation](#).

District may go undetected until year-end, and expenditures may be misaligned with budgets, increasing the risk of poor cash planning and delayed corrective actions.

On September 25, 2025, WS/FCS provided a file titled "2024–2025 Report" (the Report) in response to OSA's request for monthly reconciliations. This document was not a monthly reconciliation. It did not include the District's Special Revenue Fund and presented only year-end balances rather than monthly numbers.⁹ A proper monthly reconciliation report should:

- Clearly display, by fund and revenue source, the estimated revenue and the actual revenue realized to date;
- Clearly display, by fund and expenditure category, the budgeted expenditures and the actual expenditures incurred to date;
- Identify any significant variances and explain their causes;
- Specify the corrective actions required; and
- Be tied to the general ledger and retain supporting schedules.

OSA comparatively analyzed the Report and the FY 2025 trial balance (the trial balance) the District submitted to OSA on July 30, 2025. Through this analysis, OSA identified problematic accounting practices by WS/FCS. This issue is documented in Finding 3.

After the exit conference between OSA and WS/FCS on February 6, 2026, OSA again requested that WS/FCS provide the most recent revenue reconciliation that met the five listed requirements. WS/FCS was unable to immediately provide this documentation. WS/FCS informed OSA that the District is working with its consultant, HIL Consultants, to prepare the reconciliation. WS/FCS paid HIL Consultants \$51,532.80 in FY 2025 and \$155,671.55 in FY 2026.

WS/FCS provided OSA reconciliation documents on February 20, 2026. These documents are under review by OSA.

Recommendations

1. WS/FCS should prepare monthly reconciliations of budgeted versus actual revenue/expenditures by revenue source, ensure all reconciliations are brought current, and implement a documented management review process.
2. Reports, reconciliations, and supporting schedules should be retained and directly traceable to the general ledger.

⁹ A "Special Revenue Fund" is a type of governmental fund used to account for specific revenue sources that are legally restricted or committed to expenditures for designated purposes other than debt service or capital projects.

FINDING 3 DETAILS & RECOMMENDATIONS

Unrecorded Expenditures

Overview

On September 25, 2025, in response to OSA's repeated requests for monthly budget versus actual reconciliations, WS/FCS provided the above-mentioned Report for FY 2025.¹⁰ OSA's review of the Report identified that between July 30, 2025—the day OSA received the FY 2025 trial balance—and September 25, 2025, the District's overspending in the General Fund increased by \$29,223,964.56, from \$14,207,715.93 to \$43,431,679.49. The discrepancies between the District's trial balance and the Report will hereafter be referred to as "variances."

The \$29.22 million increase in FY 2025 General Fund overspending between July 30, 2025 and September 25, 2025 was driven by three categories of entries recorded in September 2025 (referred to by WS/FCS as "Period 13"), including:

- Approximately \$15.02 million of expenditures incurred during the fiscal year ended June 30, 2025, were not recorded until September 2025;
- A \$13.43 million journal entry was recorded in the General Fund to recognize overspending of State funds and associated liabilities, as shown in Table 1 of Finding 1; and
- Approximately \$800,000 of other miscellaneous adjustments.

During our review of these variances, OSA found that WS/FCS failed to record a significant amount of FY 2025 expenditures in its general ledger until mid-September. This atypical treatment effectively delayed recognition of a large volume of FY 2025 expenditures and understated interim totals throughout the year. These expenditures and associated liabilities were measurable and known to the District and should have been recorded in its accounting system during the months in which they were incurred. Because the District failed to record these expenditures, WS/FCS was largely unaware of its depleted financial resources and continued to run up expenditures.

Expenditure Variances by Program Report Code

Because the District held expenditures off the books, the amounts reported under many Program Report Codes did not accurately reflect the actual expenditures incurred during FY 2025.

The Report included balances for 98 PRCs. Of these, 67 PRCs showed no variances. OSA determined that variances in 31 PRCs were due to delayed recording in September—approximately two and a half months after the fiscal year ended. Of the variances in 31 PRCs, the Report showed that 7 adjustments in September 2025 exceeded \$100,000, including two downward revisions. The most significant change was a \$23.43 million upward adjustment to PRC-003's expenditures.

¹⁰ WS/FC provided the trial balance on July 30, 2025, and the report on Sept. 25, 2025; both were unaudited and received before the District's annual independent audit was finalized.

Table 2 displays data for the 7 PRCs for which the Report showed adjustments exceeding \$100,000.

Table 2: FY 2025 (Ended June 30, 2025) – General Fund PRC-Level Expenditure Variances (Amounts in \$)

PRC Code	Program Description	Per Report Received on 9/25/2025	Per Trial Balance Received on 7/30/2025	Variance
		FY 2025 Ended 06/30/2025	FY 2025 Ended 06/30/2025	
001	Classroom Teachers	37,391,167.29	37,182,881.79	208,285.50
003	Non-Instructional Support Personnel	41,953,602.99	18,524,961.88	23,428,641.11
005	School Building Administration	11,266,138.85	10,959,790.32	306,348.53
061	Classroom Materials / Instructional Supplies & Equipment	2,230,802.53	2,612,131.62	(381,329.09)
069	At-Risk Student Services / Alternative School	7,606,844.64	2,477,999.08	5,128,845.56
801	Custodial & Maintenance Services	26,977,781.85	26,530,766.21	447,015.64
920	Finance	1,413,866.68	1,625,591.96	(211,725.28)

These variances raise serious concerns about the timing, accuracy, and integrity of WS/FCS’s interim financial reporting to the Board and DPI.

Source of Variances – Backdated Journal Entries

During our review, OSA traced the variances to journal entries that were posted by WS/FCS’s Finance Office in September 2025, referred to as “Period 13.” **As an example of the expenditures posted in September 2025, OSA identified that one invoice dated October 1, 2024, was related to services rendered between July 1, 2024 and September 30, 2024. The District failed to timely report these liabilities and, as a result, consistently overstated its available financial resources.** The most significant backdated journal entries identified during OSA’s review included:

- An Accounts Payable credit of \$15,923,154.52;
- A Contracted Substitute debit of \$5,748,102.41 (PRC-003);
- A Contracted Service debit of \$5,026,336.90 (PRC-069); and
- A Janitorial Contract debit of \$4,246,414.36 (PRC-003).

Table 3 summarizes a selection of the invoices reviewed by OSA that constitute a portion of these known, measurable, but unrecorded expenditures. Such invoices were billed to WS/FCS for substitute teacher coverage, custodial and facilities management, school resource officer services, and school nursing services. Each invoice included in Table 3 was received for services rendered during FY 2025. Some of these invoices were either stamped to acknowledge receipt or not stamped at all. Yet, the Finance Office did not properly record these expenditures until September 2025.

**Table 3: Selected FY 2025 Invoices Not Recorded in the Month When Liabilities Were Incurred
(Amounts in \$)**

Invoice Date	Service from	Service to	Stamp Date – WS/FCS Finance Office Acknowledgement of Receipt	Amount	Handwritten Notes on the Invoices
1/11/2025	1/6/2025	1/10/2025	Not Stamped	109,066.24	
1/18/2025	1/13/2025	1/17/2025	Not Stamped	169,075.77	
2/8/2025	2/3/2025	2/7/2025	Not Stamped	314,127.13	
2/15/2025	2/10/2025	2/14/2025	Not Stamped	307,093.42	
2/22/2025	2/17/2025	2/21/2025	Not Stamped	221,245.93	
10/1/2024	7/1/2024	9/30/2024	Not Stamped	1,183,152.41	
12/30/2024	10/1/2024	12/31/2024	5/7/2025	1,183,152.41	
4/25/2025	1/1/2025	3/31/2025	Not Stamped	1,183,152.41	
5/2/2025	10/1/2024	12/31/2024	5/7/2025	88,393.14	
5/2/2025	1/1/2025	3/31/2025	5/7/2025	104,953.16	
5/27/2025	4/1/2025	6/30/2025	6/9/2025	1,183,152.41	
7/8/2025^a	4/1/2025	6/30/2025	Date is not legible	100,380.97	
11/7/2024	10/17/2024	10/17/2024	2/7/2025	2,100.00	
12/31/2024	1/1/2025	1/31/2025	2/7/2025	667,748.75	
12/31/2024	12/23/2024	12/23/2024	2/7/2025	230,556.86	Approved to pay, signature, 6/3/2025
1/30/2025	2/1/2025	2/28/2025	2/7/2025	667,748.75	Approved to pay, signature, 2/5/2025
2/27/2025	3/1/2025	3/31/2025	3/4/2025	667,748.75	Approved to pay, signature, 2/28/2025
3/6/2025	2/1/2025	2/1/2025	4/4/2025	638.00	Approved to pay, signature, 3/6/2025
3/27/2025	4/1/2025	4/30/2025	4/4/2025	667,748.75	Approved to pay, signature, 4/2/2025
4/15/2025	3/1/2025	3/1/2025	4/23/2025	5,989.00	OK to pay, Direct Pay, adjustment to contract approved by the Board in December, 2024
4/30/2025	5/1/2025	5/31/2025	5/19/2025	667,748.75	Approved to pay, signature, 5/5/2025
5/29/2025	6/1/2025	6/30/2025	6/2/2025	667,748.75	Approved to pay, signature, 6/3/2025

^a Appendix E provides an example of how to recognize expenditures and liabilities in the fiscal period during which they are incurred, even if the related invoices have not yet been received.

These invoices were issued by ESS (a substitute teacher firm; Atlanta, GA), SSC Service Solutions (a custodial services firm; Boston, MA), and the Finance Department of Forsyth County, NC (local government, through which WS/FCS received school resource officers and nurses). OSA reviewed the related contracts and supporting documentation and determined that these companies or entities are valid and exist.

The remaining balance owed to ESS is \$3.20 million as of the date of this review. ¹¹ The debt owed to SSC Service Solutions will be amortized over 10 years through a contract signed by WS/FCS, under which the District outsourced its custodial services to SSC. This debt owed to Finance Department of Forsyth County was forgiven and tied to private fundraising.

GAAP Compliance ¹²

As a public school district, WS/FCS is subject to the School Budget and Fiscal Control Act as found in Chapter 115C, Article 31 of the North Carolina General Statutes. Accordingly, WS/FCS's Finance Office is "responsible to the superintendent for . . . [k]eeping the accounts of the local school administrative unit in accordance with generally accepted principles of governmental accounting, the rules and regulations of the State Board of Education, and the rules and regulations of the Local Government Commission." N.C.G.S. § 115C-436(a)(1). ¹³

The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting standards for federal, State, and local government agencies that follow Generally Accepted Accounting Principles (GAAP). These principles are designed to ensure transparency, consistency, and accountability in public financial reporting. ¹⁴

According to GASB Statement No. 6, section 1600, expenditures of governmental funds should be recognized "in the accounting period in which the fund liability is incurred, if measurable." ¹⁵ This principle reinforces the importance of timely and accurate financial reporting by ensuring obligations are recorded when they are incurred, rather than when cash is disbursed or invoices are received. Adhering to this standard helps governments provide a clear and reliable view of their financial condition and operating performance.

As noted in OSA's August 14, 2025 Rapid Response Special Report, OSA has designed a dashboard to help WS/FCS improve transparency and oversight. If WS/FCS fails to timely record expenditures and liabilities in accordance with GAAP, the dashboard will be unable to fulfill its intended purpose.

Recommendations

1. WS/FCS should recognize expenditures and associated liabilities as they are incurred and prohibit any "off-the-books" practices.
2. WS/FCS should strengthen its monthly closing procedures and implement a documented month-end calendar and checklist with sign-offs by Finance Office leadership.
3. WS/FCS should implement policies to ensure that invoices are paid promptly when bills are due.
4. WS/FCS's Human Resources team should evaluate the District's financial management needs and prioritize hiring staff with demonstrated competence in governmental accounting.
5. WS/FCS should provide a clear and comprehensive explanation to the public and oversight

¹¹ The remaining balance was provided by a member of the WS/FCS Finance Office via email on Feb. 13, 2026.

¹² GAAP, as referenced throughout this report, refers specifically to Generally Accepted Accounting Principles established by the Governmental Accounting Standards Board (GASB), which apply to governmental entities and follow the modified accrual basis of accounting.

¹³ [G.S. 115C-436](#).

¹⁴ [GASB HOME](#).

¹⁵ [Governmental Accounting Standards Series Statement No.6](#).

agencies detailing why the Finance Office repeatedly failed to publicly disclose these expenditures and liabilities in interim financial reporting.

FINDING 4 DETAILS & RECOMMENDATION

Interfund Borrowing from the Child Nutrition Fund

On June 11, 2025, WS/FCS's Board of Education approved a zero-interest internal loan of up to \$6 million from the District's Child Nutrition Fund, which the District reports is supported by federal funding through the National School Lunch Program,¹⁶ to address WS/FCS's cash shortfalls for FY 2025.¹⁷ The Board provided assurance that student meal services would not be disrupted as a result of the loan.¹⁸

Five days later, a formal loan agreement was executed between the District's School Nutrition Program (Lender) and its General Fund (Borrower). However, the loan agreement does not include an interest provision, a defined repayment schedule, or penalties for nonpayment. The absence of such terms in the loan agreement raises compliance risks under applicable federal law and State guidelines.

For example, 7 CFR § 210.14(a) states, in part, "[r]evenues received by [a] nonprofit school food service are to be used only for the operation or improvement of such food service[.]"¹⁹ As interpreted by the State Treasurer's April 2025 State Nutrition Program (PRC-035/053) Supplemental Compliance Guidance, however, "School Nutrition program[s] may loan funds to the local school system as long as the amount of the loan is recovered. The LEA School Nutrition Program should also recover the amount of interest that was not generated to the program as a result of the loan."²⁰ Failure to recover either the principal or the imputed interest may be considered a violation of program requirements.

Even with the Board's approval to do so, transferring Child Nutrition Fund resources out of WS/FCS's food service operations poses risks to program integrity—particularly when repayment terms are not clearly documented, repayment does not occur on time, and/or the Fund's operating balance is weakened—and may be prohibited if the loan endangers the financial integrity of the program.

Although the loan agreement authorizes WS/FCS to borrow up to \$6 million from the Child Nutrition Fund, as of December 31, 2025, WS/FCS reported having borrowed \$2 million. Despite the executed loan agreement not including an interest provision, WS/FCS provided a spreadsheet to OSA with interest calculations, suggesting that the District intends to address this deficiency and align the arrangement more closely with compliance expectations. Accordingly, as of December 31, 2025, and including imputed interest at an estimated rate of 4.3% to 4.5%, the District's loan balance owed to the Child Nutrition Fund totaled \$2,042,460.26. On December 31, 2025, the District recorded a repayment of \$125,000, which reduced the loan balance to \$1,917,460.26. At present, the District does not anticipate borrowing additional funds under this agreement.

¹⁶ Per WS/FCS Interim CFO's email on November 18, 2025.

¹⁷ [Winston-Salem/Forsyth County board members vote unanimously to borrow up to \\$6 million from Nutrition Fund.](#)

¹⁸ [Board of Education Wrap-Up | Winston-Salem/Forsyth County Schools.](#)

¹⁹ [eCFR :: 7 CFR 210.14 -- Resource management.](#)

²⁰ [State Project/Program STATE NUTRITION PROGRAM \(PRC 035/053\).](#)

Recommendation

1. WS/FCS should amend and re-execute the loan agreement to:
 - Identify and confirm the actual principal amount advanced;
 - Include a prevailing rate interest clause;
 - Establish a defined repayment schedule; and
 - Obtain the Board’s approval of the amended agreement.

SUMMARY OF FINDINGS AND CORRECTIVE ACTIONS

OSA remains committed to identifying key issues and solutions to restore financial integrity and public trust in Winston-Salem/Forsyth County Schools. As detailed throughout this report, the District has failed in its basic accounting and budgetary duties. The District inappropriately transferred funds out of PRC-003 and failed to record expenditures and liabilities in a timely manner, which masked its true financial position. Collectively, these findings underscore severe **weaknesses** in WS/FCS’s budget discipline, monthly closing procedures, and overall accounting practices.

Beyond remedying these weaknesses, WS/FCS should demonstrate sustained budget discipline, ensure compliant treatment of the Child Nutrition Fund, and perform timely reconciliations of budgeted versus actual revenues and expenditures. Confidence in the integrity of WS/FCS’s accounting, budgeting, and financial systems will be restored when internal controls operate consistently every month and provide accurate and transparent financial reporting to the Board of Education, DPI, and OSA.

As part of its review of these findings, WS/FCS should identify the control points—whether specific positions, review processes, or system steps—where breakdowns occurred and outline corrective measures immediately. If capacity or system limitations are impeding the execution of basic accounting functions and controls, the Finance Office should identify these constraints and present them to the Superintendent and the Board so that the District can take steps to ensure its effective stewardship of public resources and public trust.

OSA appreciates the collaboration provided by DPI, WS/FCS’s Finance Office, and WS/FCS’s Board of Education as we conducted this review.



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January 30, 2026

David L. Boliek
State of North Carolina
Office of the State Auditor
20601 Mail Service Center
Raleigh, NC 27699

RE: Winston-Salem/Forsyth County Schools Follow Up

Dear Mr. Boliek,

The Winston-Salem/Forsyth County School (WS/FCS) district has received and reviewed the results of the Winston-Salem/Forsyth County Schools Follow Up report, dated January 2026.

Since engaging with the staff of the Auditor's Office in spring 2025, the district has taken corrective action to resolve the issues that lead to the Fiscal Year 2024-2025 deficit. We have made improvements of process and procedures to support good stewardship of public dollars and meeting professional accounting standards, in accordance with the corrective actions laid out by your team. You can review our [Corrective Action Tracking 90-Day Update](#) to see evidence of the progress made.

Significantly, we have also undergone an in-depth review of our internal controls, conducted by Mauldin & Jenkins at the direction of NC DPI and the Local Government Commission and by your request. We will execute the proposed two-year roadmap identified in the [December 31, 2025 Observations & Recommendations Report](#) to further stabilize critical functions, standardize operating procedures, and establish a culture of continuous improvement within the district. This implementation plan will include key accountability measures, including the creation of an Audit Advisory Committee and an Internal Audit Function. Many of the action items are already underway.

We adopted a balanced budget and are on the path to future fiscal health. We remain committed to transparency, accountability, and to rebuilding the public's trust through this process.

We thank the staff at the Auditor's Office for their continued time and attention. As requested, the information below sets forth the district's response to the January 2026 report's findings and recommendations.

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Auditor's Finding 1: On September 20, 2024, WS/FCS's Finance Office executed a budget transfer of \$16.99 million (WS/FCS's ledger reflects \$16.89 million) from the Non-Instructional Support Program to the Restart Schools Program. The transfer exceeded the Non-Instructional Support Program's available balance of \$13.92 million, creating an immediate overdraft. By April 30, 2025, the overdraft reached \$11.34 million.

District's Response 1: WS/FCS acknowledges and shared publicly in May 2025 that it overspent state funds, leading to a debt owed to NC DPI that was repaid in October 2025. The district has taken corrective action throughout this fiscal year to ensure timely and accurate accounting of state allotments.

1. Beginning in July 2025 with the launch of the new Tyler Enterprise Resource Planning system, WS/FCS has an embedded fund availability check to gate all budget transfers and amendments for non-personnel expenses. Payroll will be integrated into Tyler by July 1. The payroll assignment and state budget reports are compiled multiple times a month to ensure overspending is not occurring. See Addendum A for a sample report used to review spending. This safeguard has ensured WS/FCS has only drawn down the appropriate amount of state funds this fiscal year.

Monthly budget to actual reports including months allocated are presented to the Board of Education Finance Committee. See Addendum B. We continue to refine these reports for a more detailed picture. The next version of the report will show budget to actual by funds by PRC.

2. The Fiscal Year 2026-2027 Budget resolution will include a provision prohibiting the approval of any transfer or expenditure that would create or increase a PRC-level deficit and ensure there are no negative balances in the purpose functions and at the PRC level.
3. The district coordinates with NC DPI to ensure accurate and timely recording of allotment transfers as they occur.

Persons responsible for taking corrective action: Angela Clark, Interim Chief Financial Officer; Brenda Bourne, Interim Payroll Director; Chris Weikart, Chief Human Resources Officer

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Completion Date: These corrective actions regarding the spending of state funds and accurate and timely recording of allotment transfers are already being taken and will continue to be the district process going forward. Coordination with NC DPI is ongoing. The Fiscal Year 2026-2027 budget resolution will be adopted in June 2026. Full Payroll integration into Tyler will take place July 2026.

Auditor's Finding 2: WS/FCS's Finance Office failed to complete monthly reconciliations of budgeted versus actual revenue and expenditures. As a result, the Finance Office inhibited its own ability to identify variances in a timely manner and to take corrective actions during the fiscal period. Though OSA identified this issue in its August report, WS/FCS has not yet taken steps to remedy this internal control deficiency.

District's Response 2: WS/FCS acknowledges and has shared publicly that one of the causes of the Fiscal Year 2024-25 deficit was the failure to reconcile budgets in a timely manner. This fiscal year, it has been a key priority of the Finance Department to ensure timely reconciliation, and has taken significant steps to correct internal control deficiencies.

1. Finance staff, working with HIL Consultants, is doing a monthly review and reconciliation. We will document this management process review.

As reported to the OSA as part of the district's response to the August 2025 Rapid Response Report Finding 4, beginning in August, the district reinstated the practice of providing a monthly budget versus actual reports to the Board of Education Finance Committee. Those reports are presented to our Finance Committee and have been provided to the public through our Community Budget updates. See Addendum B for details.

As noted in the Mauldin & Jenkins January 2026 Observations and Recommendations review of WS/FCS internal controls, the Tyler ERP implementation has been providing "real-time visibility into encumbrances and expenditures. This allows Financial Services to monitor budget-to-actuals continuously rather than waiting for month-end batch reports, addressing the finding that the District failed to reconcile accounts in a timely manner."

2. Reports, reconciliations and supporting schedules that are traceable to the general ledger will be retained.

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Persons responsible for taking corrective action: Angela Clark, Interim Chief Financial Officer; HIL Consultants

Completion Date: We are already following the recommended practices for review and reconciliation. Additional documentation will be available in the fourth quarter.

Auditor's Finding 3: Throughout FY 2025, WS/FCS kept substantial costs off-the-books. Such costs were not recorded until September 2025, at which point the Finance Office backdated the costs to June 30, 2025. Because of this practice, WS/FCS understated its expenditures and liabilities in interim financial reports and effectively bypassed internal controls and oversight.

District's Response 3: WS/FCS again acknowledges and has shared publicly that in Fiscal Year 2024-2025 the district did not reconcile budgeted and actual revenue and expenditures in a timely manner. This fiscal year, we have implemented practices to ensure bills are paid in a timely manner.

1. The district's current expectation of all staff with financial roles is that expenditures and liabilities will be recognized as they occur and paid by the due date.
2. WS/FCS is working to create Standard Operating Procedures (SOPs) and process workflows based on the implemented Tyler workflow and automated controls. These SOPs will include a month-end calendar and checklist with sign-offs from Finance leaders.
3. Following conservative budgeting and significant efforts to reduce expenses (including three reductions in force), WS/FCS adopted a balanced budget for this fiscal year in October. These efforts have significantly improved cashflow to allow bills to be paid promptly. We continue to work to reinforce new Tyler procedures with staff to ensure processes are done with fidelity.

The district is also implementing an electronic funds transfer (EFT) process, which will further ensure timely payments. It will go online when all parts of Tyler are fully integrated.

We are reviewing a cash management policy for the SOPs we are developing. We are also

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reviewing Board financial policies to ensure best practices are followed.

4. WS/FCS is working to bring in new leadership to key positions in Finance. Human Resources has prioritized hiring for the Chief Financial Officer, Payroll Director, and Executive Director of Finance. The district has increased the salary and expanded its recruitment area for the CFO role in an effort to find qualified candidates. Interviews have begun for the Payroll Director and Executive Director of Finance positions.
5. WS/FCS must manage public funds with accuracy and accountability. In the 2024-2025 fiscal year, we did not meet that standard.

Since HIL Consultants identified the Fiscal Year 2024-2025 deficit in May, the district has worked to provide as detailed an explanation as possible to the community as the situation evolved. This included ongoing Budget Updates from Interim Superintendent Catty Q. Moore; regular messages to staff, families and the community; and a Community Budget Update web portal that continues to provide documents and videos explaining the issues. This clear, transparent communication is ongoing.

Persons responsible for taking corrective action: Angela Clark, Interim Chief Financial Officer; Chris Weikart, Chief Human Resources Officer; Don Phipps, Superintendent; Kevin Sherril, Chief Technology Officer

Completion Date: New SOPs will be developed with a goal to implement in time for the new fiscal year, in conjunction with the full integration of Tyler, July 1, 2026. The launch of the EFT process with large vendors will follow the same timeline. The Board policy review is underway and will come to Policy Committee in the next two months. New hiring will be ongoing until qualified candidates are identified. Transparent reporting of the district's financial condition to the broader community will be ongoing.

Auditor's Finding 4: WS/FCS's Board of Education (the Board) authorized a zero-interest internal loan from the Child Nutrition Fund for up to \$6 million to cover WS/FCS's cash shortfalls. The loan agreement lacked clear terms for interest, repayment, and penalties, raising concerns about fund

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integrity and compliance with program guidelines.

District's Response 3: WS/FCS acknowledges that the initial loan agreement lacked terms for interest, repayment and penalties. On January 13, 2026, the Board of Education approved an addendum to the loan agreement acknowledging the amount of \$2,000,000.00 borrowed on or after July 1, 2025, shall accrue interest at the prevailing interest rate and established a clear repayment term. The parties agree that the initial disbursement shall be repaid, with applicable interest, on or before June 30, 2026. This amended agreement addressed concerns NC DPI raised. The agreement was provided to NC DPI on January 20, 2026.

Persons responsible for taking corrective action: Angela Clark, Interim Chief Financial Officer; Dionne Jenkins, General Counsel

Completion Date: June 30, 2026, the repayment deadline.

Addendum A

WS/FCS Financial Services [State PRC Budget to Actuals review workbook, January 21, 2026](#). *A note on this report: A PRC 20 budget amendment will be forthcoming after budget amendment is approved by the Board from DPI ABC transfer of 001 positions into dollar amount in PRC 20.*

Addendum B

WS/FCS Budget Amendments and Transfers and Budget Versus Actual Reports for Fiscal Year 2025-2026. As presented to the Board of Education Finance Committee for review and fill Board approval.

Budget Amendments

- [8/12/25 Budget Amendment](#)
- [8/26/25 Budget Amendment](#)
- [9/9/25 Budget Amendment](#)

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A decorative graphic in the bottom right corner consisting of overlapping curved shapes in blue, yellow, and red.



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- [9/23/25 Budget Amendment](#)
- [10/28/25 Budget Amendment](#)
- [11/11/25 Budget Amendment 1 and 2](#)
- [12/16/25 Budget Amendment](#)

Budget to Actual Reports

- [August Monthly Financial Report](#)
- [September Monthly Financial Report](#)
- [October Monthly Financial Report](#)
- [December Monthly Financial Report](#) (November data presented in December due no Finance Committee being held in November.)

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APPENDIX A — Chronology of Key Events (September 2024 – October 2025)

Date	Event	Notes
September 20, 2024	WS/FCS transferred \$16.99 million out of PRC-003, which was in excess of its available balance of \$13.92 million.	
October 31, 2024	FY 2024 Annual Independent Audit due date (G. S § 115-447)	Grace period
Mar 27, 2025 (approx.)	FY 2024 Annual Independent Audit submitted	Material weaknesses and significant deficiency reported
May 2025	DPI denies cash for additional overdrafts beyond cap	Overdraft cap set; access removal pending
After May 2025 MFR	DPI removes access to Cash Request Application	June expenditures reimbursed rather than advanced
June 2025	Funding shifted to reimbursement basis	Except restricted summer programs, cash advances discontinued
June 30, 2025	DPI concluded WS/FCS had an obligation/ liability to the State Public School Fund in accordance with SBE Policy A LOT-002.	\$11,334,545.33 (PRC-003)
July 16, 2025	WS/FCS requests SBE penalty waiver	
August 5, 2025	Initial grace period communicated by State leadership	Penalty imposition extended to September 20, 2025
August 18, 2025	WS/FCS appeals penalty	
August 27, 2025	Partial repayment made	\$7,925,000; remaining \$3,409,545.33
October 1, 2025	Interest schedule begins	0.4% per month per SBE vote
October 28, 2025	Paid DPI in full	Paid the remaining balance \$3,409,545.33

APPENDIX B — Breakdown of Over-Expenditures by Program Under State Public School Fund (FY 2025)

Based on this schedule, the overspent amounts in PRC-024, 034, 055, 056, 071, 131, and 153 were reclassified to other funding sources as of May 31, 2025. However, WS/FCS failed to reclassify PRC-003 due to the high dollar amount involved and the PRC transfer restrictions specified in N.C.G.S. § 115C-105.25. Parentheses denote overdrafts.

Monthly Financial Report	Noninstructional Support (003)	Disadvantaged Student Funding (024)	Academically or Intellectually Gifted (034)	Cooperative Innovative High School (055)	Transport (056)	Teacher Supplement (071)	Textbooks (131)	System Modernization (153)	Total
7/31/2024		(68,274)							(68,274)
8/31/2024	(1,438,388)	(258,709)							(1,697,097)
9/30/2024	(3,231,105)	(428,077)							(3,659,182)
10/31/2024	(5,045,588)	(552,862)							(5,598,450)
11/30/2024	(6,740,155)	(616,418)					(69,764)		(7,426,337)
12/31/2024	(8,240,657)	(663,546)					(69,764)		(8,973,967)
1/31/2025	(9,881,307)	(31,029)					(69,764)		(9,982,100)
2/28/2025	(11,394,156)	(31,029)					(69,764)		(11,494,949)
3/31/2025	(10,353,741)	(2,201)							(10,355,942)
4/30/2025	(11,334,545)								(11,334,545)
5/31/2025	(12,573,150)		(9,541)	(24,580)	(1,744,054)	(569,931)		(100,171)	(15,021,427)
6/30/2025	(13,432,924)								(13,432,924)

Source: WS/FCS Appeal to the State Board of Education (SBE). NC DPI Statement of Fact.

APPENDIX C — Cash Management Modes (Advance/Cash Request vs. Reimbursement)

Due to WS/FCS's significant overdraft, DPI removed WS/FCS staff's access to the Cash Request Application and denied cash for additional overdraft beyond the \$11,334,545 after DPI received the District's May 2025 Monthly Financial Report. DPI moved WS/FCS to a cash reimbursement status from the cash advance status for the rest of the 2025 fiscal year, ended on June 30, 2025. As such, OSA summarized the operational differences between the normal **advance/cash request** model in the PSU Cash Application (PCA) and DPI's cash **reimbursement** model. Language mirrors the NC DPI Blue Book (Chapter 7). "Reimbursement status" is a DPI cash control model—not a defined Blue Book term—but is consistent with Blue Book's cash management principles.

DPI's response to this cash management model analysis is provided below, and in the following chart, the underlined blue text represents DPI's recommended edits to OSA's proposed summary table.

DPI's response to OSA's cash management models analysis: *As part of Financial System Modernization project, on July 1, 2024 DPI and the Public School Units (PSUs) moved from a mainframe cash and reporting system to a new cash application with a modern reporting system. With this transition, there were changes to procedures and reporting that impacted both DPI and PSUs. These changes temporarily impacted the PSU cash projection schedule, assessment of the SBE 1% monthly penalty for overdrafts and report availability. We are continuing to enhance both the Cash Application and the reports to support the PSUs and the DPI cash management area.*

The comparison below shows items between the current advanced cash request model and a reimbursement model. To our knowledge, the PSUs have always been on a cash advance model. Although we do not have documents as to the reason a cash advance model was implemented, 70% of the PSU budget is supported with State and federal funds, and most LEAs do not have the available cash to be able to continue operations on a reimbursement basis.

Abbreviations: DPI-NC Department of Education FRD- Funds Requirement Date PCA-PSU Cash Application PSU-Public School Unit PRC-Program Reporting Code
MFR-Month Financial Report.

Aspect	Advance / Cash Request (Blue Book Ch. 7) ²¹	Reimbursement Status (DPI Control)
Role of Allotment	Establishes PSU's authority to draw cash via PCA. Allotment limits apply. <u>In the first year of operation, this system capped allotments for federal and charter school draws but was unable to automatically cap draws in State cash. This year DPI is implementing an automatic cap for dollar program report codes (PRCs) as part of the Zero-Out process.</u>	DPI restricts PCA advance draws; reimbursement only for allowable costs within remaining allotments.
Budget Law Gatekeeping	Finance officer must ensure appropriation and sufficient balance; preaudit/certification required.	Same budget law applies; reimbursement status does not relax controls.
Cash Timing (FRD Schedule)	Weekly processing; deadline Monday at 11:45 PM for Friday FRD; emergency requests deadline Tuesday at 12:00 PM.	No advance draws; reimbursements occur after expenditures are posted/reviewed; <u>cash for approved expenditures on regular FRDs.</u>
Who Fronts the Cash	State fronts the cash via weekly draws.	District fronts the cash (local fund, lawful interfund loan, or approved credit).
Zero-Out & Cash True-Up	Aligns State Treasurer cash balance with prior month's expenditures; not a financing tool; should be <2% of monthly cash requested.	Cannot fund operations; DPI may net reimbursements against amounts owed to prevent deficit growth.

²¹ [School Business Services Blue Book PSU Guide to Navigating School Business.](#)

When PRC is Exhausted/Expired	No cash requests allowed; overspent cash must be covered by local funds. Last year, this policy applied to PRCs that were part of the automatic cap under the cash system. PSUs can still request cash in other PRCs that are not exhausted/expired.	No reimbursement available; overspends require correction or use of local funds.
Overspend Control	Ledger can go negative in a PRC if district posts past allotment; DPI trues up later.	No new State cash unless expenditures are eligible and within allotment.
Balanced Budget / Fund Balance Limits	Must comply with N.C.G.S. § 115C-425; fund balance cannot exceed cash and investments minus liabilities/encumbrances/deferred revenues.	Same legal limits apply; increased local cash needs must be planned within a balanced budget.
System Access	PSU Finance staff draw funds via the PSU Cash Application (PCA). DPI staff can also access or modify draws as necessary (for emergency cash, etc.).	DPI restricts advance-draw access; only reimbursement claims processed after review.
Liquidity Impact	Lower local cash strain under routine FRD-based advances.	Higher local cash strain; requires lawful short-term liquidity (e.g., local funds or authorized borrowing).
Accounting Treatment	Same fund coding; the difference lies in cash timing.	Same allowability rules; DPI withholds State cash until compliant costs are verified.
Payroll/Payables Risk	Lower (cash is available in advance).	Higher if local liquidity is tight.
Risk of Deficit Growth	Ledger deficits may appear if postings occur to depleted PRCs; Zero-Out not intended to cover shortfalls.	Reimbursements limited to eligible costs within allotments; DPI may offset reimbursements to cap deficit growth.
Typical Use Case	Normal operations with adequate controls.	Corrective control to halt overdrafts and enforce fiscal discipline. Also used for non-units (community nonprofit organizations) receiving limited federal grant funds.
Repayment Handling	Overdrawn cash is reversed via next month Zero-Out (<2% tolerance). To correct sooner, submit a negative PCA cash request for the open/current year PRC. For prior year/closed PRC or compliance cases, remit a manual check with the Refunds & Repayments form. Yearend: meet the final Zero-Out date per DPI closeout memo.	DPI may offset reimbursements to reduce any existing State receivable and may require a repayment plan/interest per DPI notice.
Documentation & Review	Routine MFR and adherence to PCA schedule.	Claim backup and eligibility verification required; DPI may adjust reconciliations to prevent disallowed draws.

APPENDIX D — Budget Amendment Approved by WS/FCS’s Board of Education on March 25, 2025

[WS/FCS Budget Amendment and Appropriation of Funds -approved on 3-25-2025](#)

At its March 25, 2025 meeting, WS/FCS’s Board of Education approved a budget amendment which transferred \$16,887,879 from PRC-003 (Non-Instructional Support) to other PRCs. However, as of February 28, 2025, PRC-003 had a negative balance of \$11,394,957.26 (overdraft). The amendment was presented by purpose codes. OSA obtained the corresponding transactions (see table below) as recorded in WS/FCS’s accounting system and organized them by Program Report Code (PRC). OSA reconciled these figures to the Board-approved amendment and found no differences.

Budget Amendment Approved by WS/FCS’s Board of Education		
PRC	Description	Budget Amendment Amount
000	Revenue	(5,215,814.07)
001	Classroom Teachers	4,465,000.00
002	Central Office Administration	(25,106.00)
003	Non-Instructional Support Personnel	(16,887,879.00)
004	K-5 Program Enhancement Teachers	525,531.00
005	School Building Administration	301,603.00
006	School Health Personnel-Position	228,833.00
012	Driver Training	(45,394.00)
013	Career Technical Education -Months of Employment	965,758.00
016	Summer Reading Camps	(154,761.81)
020	International Faculty Exchange Teachers	936,611.00
022	Advanced Teaching roles	4,809.00
024	Disadvantaged Student Supplemental Funding	(2,262,217.00)
027	Teacher Assistants	(919,543.00)
032	Children with Disabilities	(146,551.00)
034	Academically or Intellectually Gifted	35,968.00
037	Restart Schools and Renewal School System	9,958,198.00
042	Child and Family Support Teams (CSFT)-Nurses	51,016.00
043	Child and Family Support Teams	146.00
046	Federal Charter School Competitive Grant	372,315.00
048	Principal and Other Teacher Performance Bonuses	1,027,418.00
054	Limited English Proficiency (LEP)	1,034,622.00
056	Transportation of Pupils	283,227.00
063	Children with Disabilities -Special Funds	(276,750.00)
065	Coding and Mobile Program Grant	(80,000.00)
068	Alternative Programs and Schools	21,645.88
071	Supplemental Funds for Teachers Compensation	5,533,785.00
073	School Connectivity	(175,559.00)
083	CTE-Credential Program Support	26,557.00
085	Literacy Intervention	416,485.00
254	Increasing Engagement in STEM Grant	47.00
Total		(0.00)

APPENDIX E — Properly Recognizing Expenditures and Liabilities Incurred During the Fiscal Period, Even if the Invoice Has Not Yet Been Received.

Under GAAP, the correct accounting treatment for an invoice dated July 8, 2025 for services rendered between April 1, 2025 and June 30, 2025 is illustrated below.

Illustrative journal entries:

Month-End Accrual (June 30, 2025):

Account Name	Debit	Credit
Expenditures	\$100,000.00	
Accrued Liabilities		\$100,000.00

Basis: The contract or purchase order and service logs support a measurable liability for services received by June 30, 2025.

Upon Invoice Receipt (July 8, 2025):

Account Name	Debit	Credit
Accrued Liabilities	\$ 100,000.00	
Expenditures	\$ 380.97	
Accounts Payable		\$ 100,380.97

Note: The \$380.97 difference between the estimated accrual and the actual invoice represents an immaterial variance. Although this amount will be recorded in a subsequent accounting period, its impact is negligible and does not materially distort interim or annual financial reporting or decision-making. However, this example underscores a critical principle: accrued liabilities must be recorded accurately. Material over-accruals or under-accruals may indicate negligence or incompetence and can undermine the reliability of financial statements.

Upon Payment:

Account Name	Debit	Credit
Accounts Payable	\$100,380.97	
Cash		\$100,380.97

WS/FCS's failure to comply with GAAP not only resulted in the misrepresentation of the school district's monthly financial position but also undermined public trust and accountability.

Ordering Information

Copies of this report may be obtained by contacting:



Office of the State Auditor
State of North Carolina
20601 Mail Service Center
Raleigh, North Carolina 27699

Telephone: 919-807-7500
Fax: 919-807-7647
Internet: www.auditor.nc.gov

**To report alleged incidents of fraud, waste or abuse in state government
contact the Office of the State Auditor's Tipline:**

Telephone: 1-800-730-8477

Internet: www.auditor.nc.gov/about-us/state-auditors-tipline

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