DIVISION OF ACCOUNTABILITY, VALUE, AND EFFICIENCY (DAVE)

The Office of the State Auditor's (OSA) **Division of Accountability, Value, and Efficiency (DAVE or the Division) was created under** Session Law 2025-89 to assess State agency operations and fiscal effectiveness. As part of that directive, the Division is analyzing long-term vacancies and associated lapsed salaries across State agencies, including the North Carolina Department of Health and Human Services (DHHS).

OSA conducted this analysis using Office of State Budget and Management (OSBM) reports, North Carolina Financial System (NCFS) data, and vacancy and lapsed salary data self-reported by DHHS.

Did You Know?

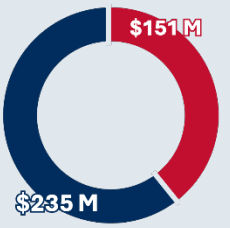
If a state agency job is vacant, agencies still receive funds for the associated salary and benefits. Those budgeted dollars are called "lapsed salary" and can be used by state agencies for other expenditures until the vacancy is filled.

Preliminary DHHS Vacancy and Lapsed Salary Analysis

According to OSBM reports, DHHS generated $386 million in lapsed salary funds in SFY 2024-2025, with $151 million from state appropriations and $235 million from receipts and federal funding.[i] The $386 million is the most lapsed salary generated by any state agency in North Carolina and represents 30.6% of all lapsed salary funds generated in the State.

Through analysis of NCFS data, OSA determined that vacancy-related lapsed salary funds for the month of September 2025 alone are conservatively estimated at $23.3 million.[ii] At that estimated run rate, DHHS would generate approximately $210 million in lapsed salary funds from September 2025 through June 2026.[iii]

Using DHHS reported data, OSA determined that vacancies from 340 positions[iv] that were never advertised and posted[v] from August 2024 to August 2025 accounted for $16.5 million in lapsed salary funds, with $4.9 million from state appropriations and $11.6 million from receipts. This figure is coincidently similar to DHHS's recent $13 million request for Medicaid technology upgrades.

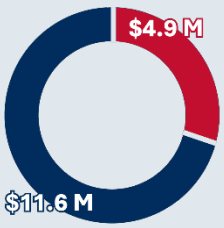


$386 M
IN LAPSED SALARIES
FOR SFY 24-25

■ Other (Receipts and Federal) ■ Appropriations

$23.3 M
IN LAPSED SALARIES
FOR SEPTEMBER 2025

$210 M
IN LAPSED SALARIES
ESTIMATED THROUGH JUNE 2026



$16.5 M
IN LAPSED SALARIES
FROM 340 FTE POSITIONS NEVER POSTED

■ Receipts ■ Appropriations

Leaving positions vacant to cover operational expenses and other department priorities detracts from financial transparency needed for decision-making.

True budget alignment to the requirements necessary for an agency to fulfill statutory obligations and to serve the public is a preferred budgeting practice.

DHHS states that it relies heavily on lapsed salary funds to ensure continuity of operations by covering needs that are not otherwise funded through recurring appropriations. DHHS reported to OSA that it uses lapsed salary funds for overtime and temporary workers to cover understaffing, state-mandated salary, retirement, and medical cost increases, as well as equipment.

> ***[DHHS] relies heavily on lapsed salary funds to ensure continuity of operations by covering needs that are not otherwise funded through recurring appropriations.***

Untimely Reporting of Lapsed Salary Use

DHHS is statutorily mandated to report the detailed uses of lapsed salaries annually to the Joint Legislative Oversight Committee on Health and Human Services and the Fiscal Research Division by November 1. [vi] However, DHHS has not published this report on time since 2017. In fact, DHHS has submitted these reports an average of 296 days late since 2017. The deadline for Fiscal Year 2025's report is rapidly approaching, and this information is vital to assessing the DHHS budget. [vii]

Medicaid Funding Shortfall

Earlier this year, DHHS expressed its concern that additional funding would be necessary to maintain current Medicaid costs for State Fiscal Year (SFY) 2025-26. DHHS proposed a $819 million budget for this purpose and indicated that if it did not receive this full amount it "would have to make cuts to the Medicaid Program." [viii] In July 2025, the General Assembly appropriated $600 million to DHHS for its Medicaid rebase. [ix]

DHHS indicated that after covering the program's administrative requirements, only $500 million of this appropriation would remain for the rebase, resulting in a $319 million shortfall to DHHS's request. DHHS has instituted cost-cutting measures including:

- 3% reduction in provider reimbursement rates across all providers.
- 8–10% reductions to select Medicaid services.[x]

It should be noted that OSA is not expressing that the lapsed salary figures cited above can be directly diverted to cover the Medicaid funding gap. It is likely that DHHS has already expended or encumbered these funds for future expenses. The Division is publishing part of its assessment of DHHS to provide insight into budget practices and their potential impact on Medicaid funding and overall fiscal transparency.

OSA looks forward to providing comprehensive findings in the end-of-year report mandated by Session Law 2025-89. The report will provide additional analysis to support accurate budgeting across the State of North Carolina. DHHS was given the opportunity to respond to this report. Their input has been incorporated. DHHS provided no contradictory data to the figures presented.

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[i] Refers to lapsed salary generated from positions whose salary and benefits are funded by specific agency-generated receipts (program services, fees, etc.) and federal funding and grants.

[ii] Removed federal dollars from analysis.

[iii] Some positions are held in accordance with N.C.G.S. § 143C-5-4(b)(4).

[iv] Full-time equivalent (FTE) positions.

[v] Refers to the official advertisement of a job vacancy to attract applicants.

[vi] N.C.G.S. § 120-208.4(b).

[vii] *See* North Carolina Department of Health and Human Services. (2025, March 19). *Report to The Joint Legislative Oversight Committee on Health and Human Services and Fiscal Research Division*. https://www.ncdhhs.gov/ncgs-120-2084b-lapsed-salary-funds-1/open.

[viii] North Carolina Department of Health and Human Services. (2025, August 11). *Letter to Legislative Leaders Regarding Medicaid Rebase Funding and Planned Reductions*. https://ncnewsline.com/wp-content/uploads/2025/08/Medicaid-Rebase-NCGA-Letter-August-2025_FINAL.pdf.

[ix] The State-level process of updating the Medicaid program's budget to continue covering current service levels for beneficiaries based on recent cost data to account for changes in enrollment, medical inflation, and service utilization. "These funds shall be used to adjust Medicaid funding to account for projected changes in enrollment, enrollment mix, service and capitation costs, and federal match rates, as well as the implementation of the Children and Families Specialty Plan in December 2025 or for contracts needed to operate the State's Medicaid managed care program." (SL 2025-89)

[x] North Carolina Department of Health and Human Services. (2025, August 11). *Letter to Legislative Leaders Regarding Medicaid Rebase Funding and Planned Reductions*. https://ncnewsline.com/wp-content/uploads/2025/08/Medicaid-Rebase-NCGA-Letter-August-2025_FINAL.pdf.