

Internal Audit Report

Cuyahoga County, Ohio
Department of Internal Auditing

County Budget Review
Advisory Engagement

Office of Budget and Management

Review Period: 2025 - 2026

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INTERNAL AUDIT REPORT

County Budget Review

August 20, 2026

To: Director of Office of Budget Management (OBM), Walter Parfejewiec and current management of OBM,

At the request of the Executive's Office, the Department of Internal Auditing (DIA) has conducted a review of Cuyahoga County's (County) budget process.

The County OBM serves as the central authority for financial planning and budget administration. For 2026, the County is operating with a \$2 billion total budget, including \$638 million in the General Fund and \$282 million in the Health and Human Services (HHS) Levy Fund. OBM consists of 11 staff members who operate under the direction of the County Fiscal Officer and Executive, and in coordination with County Council. Their primary responsibilities include:

- Biennial Budget Development

The biennial budget development process is a comprehensive cycle beginning with OBM building a base budget using prior-year spending and recent payroll data. Departmental base budgets are provided to respective directors for review and to prepare their budget requests with the changes to be requested. OBM enters all budget requests into Sherpa (budget system). The Executive reviews the base budget and departmental requests, approves or modifies them. OBM prepares the final recommended budget for Executive submittal to County Council. Council reviews, adjusts, and ultimately adopts the final budget. OBM is responsible for uploading the Council approved budget into Lawson (accounting system of record).

- Budget Adjustments

Departments are limited to spending within their Council approved budget input into Lawson; however, they may request adjustments. OBM is responsible for reviewing all budget adjustment requests including appropriation increases, decreases, or transfers. OBM reviews the adjustment request and prepares a recommendation for the Executive Office. If Executive approval is obtained, OBM prepares the fiscal item write up for Council review, and ensures all documents are saved and submitted for legislative consideration. All budget adjustments are tracked via OBM's Budget Adjustment and Cash Transfer Log.

- Budget Monitoring/Forecasting

Projections and forecasting allow OBM to maintain ongoing financial oversight throughout the year. Monthly, OBM uploads Lawson data into Sherpa to obtain actual year to date expenditures and prepare departmental forecasts. Budget administrators in OBM are responsible for inputting payroll, revenue, and expense data into Excel workbooks and apply forecasting methods based on judgment and departmental knowledge. Administrators upload final forecasting data into Sherpa, document justifications, and discuss projections with departments quarterly.

- Budget Reporting

County Code Section 701.07 requires OBM perform regular reporting on the County's budget to appropriate stakeholders. This includes preparing, publishing, and presenting the Biennial Budget, annual performance, monthly and quarterly monitoring, and an outstanding loan report in an accurate and timely manner.

Purpose and Scope

Due to deficit spending in recent years and cash balances nearing reserve requirements in the County General Fund and the HHS Levy Fund, DIA's review of the budget process was timely and critical for identifying enhancements that could improve the County's long-term budget outlook. DIA reviewed the County's current budgetary process in effect in 2025 and 2026.

The objectives of this advisory engagement were to:

1. Assess whether the County's budgeting process is aligned with governance best practices, including transparency, accountability, and stakeholder engagement.
2. Identify inefficiencies, bottlenecks, and redundancies in the current budgeting cycle (planning, preparation, review, approval, monitoring).
3. Evaluate the budget monitoring process to ensure variance reporting is timely, accurate, and facilitate informed decision-making.

Methodology

DIA made inquiries and reviewed OBM's policies and procedures to gain a general understanding of their processes including biennial budget development, monitoring/forecasting, and adjustments. We evaluated OBM's design of controls and adherence to best practices, and reviewed for inefficiencies by:

1. Developing a flowchart of OBM processes to identify potential process control gaps.
2. Evaluating budgetary controls within Lawson and Sherpa.
3. Comparing existing procedures to Government Finance Officers Association (GFOA) standards and best practices.
4. Holding interviews with three comparable Ohio counties to gather best practices.
5. Assessing stakeholder satisfaction by administering a survey to all departments and conducting interviews with selected agencies to evaluate OBM's support services.
6. Evaluating OBM's operational efficiency by reviewing relevant policies and procedures, Sherpa budgeting system capabilities, and the effectiveness of vacancy credit practices.
7. Verifying OBM's compliance with reporting requirements within County Code 701 by gathering documentation to confirm that all mandated reports were properly submitted to the public, County administration, and Council.

Commendable Practices

DIA identified the following commendable practices during the engagement:

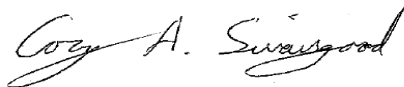
- Awarded the Distinguished Budget Presentation Award by the GFOA.
- Appears to adhere to applicable GFOA best practices.
- Documented policies and procedures for key budgeting practices.
- Training materials were developed and available to employees via the County intranet.
- Accessibility to budget reports on the County's website.

DIA would like to express our appreciation to staff and management, and interrelated departments that assisted throughout the process for their courtesy and cooperation during this engagement.

This engagement was performed in accordance with the Global Internal Audit Standards issued by the Institute of Internal Auditors (IIA). The IIA standards define advisory engagements as services through which internal auditors provide advice to an organization without providing assurance or taking on management responsibilities. The nature and scope of advisory services are subject to agreement with relevant stakeholders. Advisory services are also known as consulting services.

This review was performed as an advisory engagement. We were not engaged to and did not conduct an audit examination and therefore are not attesting to the effectiveness of controls or accuracy of OBM reporting. This report also includes our observations and opportunities for enhancement.

Respectfully,



Cory Swaisgood, CPA, CIA
Director of Internal Auditing

Cc: Audit Committee
 Cuyahoga County Council
 Erik Janas, Chief of Staff
 Katie Gallagher, Chief of Operations and Innovation
 Michael C. O'Malley, Cuyahoga County Prosecutor

Observations and Enhancement Opportunities

Summary:

DIA's review of the County's budget process identified several opportunities to strengthen budgeting processes, improve financial stewardship, and enhance departmental collaboration.

Collectively, the recommendations emphasize establishing stronger controls over source data, implementing a formal rainy-day reserve, modernizing and integrating forecasting tools, refining budget development practices, ensuring compliance with County Code requirements, expanding targeted training, and improving personnel cost modeling. Implementing these enhancements will improve accuracy, transparency, long-term financial stability, and operational efficiency across the County's budgeting process.

<i>Observation Title</i>		<i>Summary</i>
1	Reduce Budget Adjustment Volume Through Improved Budget Planning	Budget adjustments consume a significant portion of OBM's workload, with many adjustments being predictable and highlighting gaps in budget planning and departmental coordination. Recommended improvements include implementing an earlier, phased budget development process, strengthening departmental submission requirements, and reinforcing expectations through Executive and Council communication. The County should also consider centralizing key fiscal functions to promote consistency and efficiency.
2	Improve Accuracy and Consistency in Personnel Cost Budgeting	Personnel budgets do not reflect authorized strength; vacancy credit is inconsistently applied and forecasting lacks position level detail. Recommendations include budgeting at full authorized strength, evaluating vacancy credit usage, and requiring budget review prior to hiring.
3	Strengthen Controls Over Source Data and Manual Inputs	OBM relies heavily on manual data entry without formal verification, increasing the risk of inaccurate or inconsistent data used for budget development. Recommended enhancements include automating data pulls, implementing review steps, and updating policies for data roles and responsibilities.

4	Modernize and Expand the Use of Sherpa Budget System Capabilities	Sherpa is not integrated with Lawson, requiring manual monthly data uploads. Departments lack read-only access despite available capabilities. Recommendations include daily integration, expanding departmental access, and evaluating Sherpa's workflow tools.
5	Enhance OBM Training Structure, Delivery, and Departmental Engagement	OBM provides training materials but needs more structured, frequent, and targeted training to reduce confusion and improve departmental collaboration. OBM should schedule more live training, improved communication of materials, and shorter topic focused modules.
6	Establish Budget Stabilization (Rainy Day) Funds	Both the General Fund and HHS Fund are at or below reserve levels, and the County lacks a formal budget stabilization fund (rainy day fund). A reserve account (rainy-day fund) would strengthen long term stability and align with best practices.
7	Strengthen Compliance with County Code	OBM did not comply with loan loss reserve reporting requirements and lacks a documented methodology. OBM should develop and document a reserve methodology consistent with the County Code.

Details:

<i>Observation 1: Reduce Budget Adjustment Volume Through Improved Budget Planning</i>
During the engagement, OBM noted that budget adjustments represent a significant portion of the department's workload. DIA identified 479 budget adjustments for 2025 within OBM's Budget Adjustment and Cash Transfer Log, including both the credit and debit entries for each transaction. Of these, 341 adjustments (71%) appeared to be related to personnel and other operating expenditures. Although some adjustments such as those driven by grants, unexpected revenue changes, or emergency expenses, cannot be forecasted, most could be anticipated during the budget development process. The high volume of adjustments indicates that improvements are needed in budget planning and in coordination with County departments.
<i>Potential Effect</i>
The current volume of budget adjustments limits OBM's ability to focus on higher-value activities, such as continuous budget monitoring and forecasting.
<i>Enhancement Opportunities</i>
Recommendations to enhance the budget process are an effort to reduce budget adjustments. They were derived from DIA's discussions/walkthroughs with County staff and interviews with three other Ohio counties. DIA recommends the County enhance budgeting processes by: <i>(see the following page)</i>

1. Completing an analysis of budget adjustment data via OBM's budget adjustment log to identify trends and areas for improvement.
2. Consider starting the budget development process earlier in the year and implementing phases to help guide the budget request process using standardized forms. For example, OBM should consider establishing a quarterly schedule to collect relevant data for the next year's budget, such as information on personnel in Q2 (authorized strength, actual FTEs and vacancies), IT needs/contract in Q3, employee benefits, and chargebacks in Q4.
3. Require departments to identify mandated vs non mandated expenditures when submitting budget requests to assist management and Council in final budget decisions.
4. Require departments to complete projections and provide the necessary forecasting tools/training to encourage collaboration.
5. Demonstrate leadership support by issuing an official letter at the start of budget development, signed by the Executive and County Council. The letter should emphasize the need for departments and agencies to provide complete information, including projections, and state that budget adjustments for reasonably anticipated expenditures will be scrutinized after the final budget is approved by Council.

A reduction in budget adjustments would free OBM staff to focus on other fiscal responsibilities for County departments, including opportunities for cross-training with business service managers, as practiced in other Ohio counties. To further strengthen fiscal consistency, County Executive departments should consider centralizing key fiscal functions to support uniform fiscal practices. A more centralized structure would reduce duplication of effort, enhance accountability, and promote a more coordinated and efficient budget development process across the County's operations.

Observation 2: Improve Accuracy and Consistency in Personnel Cost Budgeting

OBM uses two metrics to monitor personnel costs and FTEs: Authorized Strength and Vacancy Credit.

Authorized Strength – The total number of FTEs a department is permitted to fill.

Vacancy Credit – A reduction to each department’s personnel budget to account for anticipated vacancies throughout the year. OBM calculates this using a four-year average.

DIA’s review of these metrics identified the following:

1. Department budgets do not reflect total authorized strength. As a result, hiring up to authorized strength may cause actual personnel costs to exceed the approved budget.
2. Personnel cost forecasting relies on current-year actuals at a specific pay period rather than incorporating active employees, vacancies, and authorized strength. Position-level details, such as pay rates and current medical insurance enrollment per employee, are not tracked for budgeting purposes. This appears to stem from system limitations and resource constraints to develop the model.
3. The County is not using the vacancy credit as intended. The credit is added back into the budget at year-end without evaluating its impact, likely due to current financial pressures. In comparison, another Ohio county using this metric applies the vacancy credit to help ensure departments remain within their approved budget and the impact of the credit is assessed five pay periods before year-end.
4. The vacancy credit is calculated and monitored only for Executive agency departments and does not include non-Executive agencies. Another Ohio county using this metric applies the vacancy credit to all agencies in the County.

Potential Effect

If personnel budgeting metrics are not fully utilized and assessed, the County risks underbudgeting actual personnel costs under its current budgeting models.

Enhancement Opportunities

Overall, authorized strength and the vacancy credit are effective budgeting tools when consistently monitored and applied across all County agencies. Budgeting at full authorized strength also supports proper use of the vacancy credit by providing more accurate data for calculations and planning.

DIA recommends the County evaluate its current personnel budgeting methods and consider the following enhancements:

1. If the County continues to use authorized strength, personnel budgets should reflect the full authorized FTE count (i.e., Authorized Strength = Approved Budget). This will require collaboration with Human Resources to maintain accurate authorized strength data and employee-level information, such as pay rates and current insurance enrollment, to improve forecasting. Budgeting personnel costs at full authorized strength will also promote consistency and transparency.
2. Reassess the use of the vacancy credit in light of the County's current financial condition. The vacancy credit should first help balance individual departmental budgets and then support balancing the County's overall budget, if needed. The credit should be evaluated throughout the year to ensure it is effectively supporting a balanced budget.
3. Require fiscal staff (i.e. OBM, Business Services Manager) to confirm sufficiency of budget/authorized strength prior to filling vacant staff positions.

Observation 3: Strengthen Controls Over Source Data and Manual Inputs

OBM relies on manually entered information at multiple points in the budgeting process, including:

- **Source data entry for the base budget and projection forecasting:** Analysts and the deputy director manually input payroll, revenue, and expense data from Lawson into Excel workbooks.
- **Executive budget changes:** OBM discusses and tracks budget requests with the Executive, and determinations are made across a series of meetings. All Executive approvals and denials are manually input into Sherpa as part of the Executive Recommended Budget.

OBM did not have a formalized review or verification process to confirm the accuracy and completeness of either the Lawson-based source data or the Executive updates recorded in Sherpa.

Potential Effect

Manual data entry increases the potential for inconsistencies and reduces confidence in the underlying data used for budget development and projections. Establishing more structured data-quality practices could improve the reliability, efficiency, and repeatability of OBM's budgeting workflow.

Enhancement Opportunities

DIA recommends OBM strengthen the reliability and consistency of its budgeting process by enhancing controls around source data. Opportunities include:

1. Exploring automation or system-based data pulls and workflows (requests/approvals) that could reduce manual input and improve efficiency.
2. Establishing a review or verification step to confirm data accuracy before analysts and leadership use it for budget or projection development.
3. Updating policy and procedures or creating guidance outlining roles, responsibilities, and expectations for data entry and validation.

These enhancements would help OBM improve data integrity, streamline workflow, and support more reliable budgeting outcomes.

Observation 4: Modernize and Expand the Use of Sherpa Budget System Capabilities

OBM relies on Sherpa to perform budget forecasting and to prepare the County's Biennial Budget. During DIA's assessment of the system and discussion with another Ohio County utilizing the system, the following was noted:

1. Sherpa is not integrated with the County's existing financial system, Lawson. As a result, financial data from Lawson must be manually uploaded into Sherpa monthly, creating a reliance on periodic manual data transfers rather than real-time or automated integration.
2. Access to Sherpa is limited to the OBM staff. Sherpa has the ability to generate budgetary reports that may be useful for departments to access and view at any time.
3. Sherpa also has the capability to electronically submit budget requests with workflows for department and OBM approval; however, this would require additional expense for added user licenses.

Potential Effect

There is an increased risk of outdated, inconsistent, or incomplete financial information being used during budget development and forecasting activities.

Enhancement Opportunities

DIA recommends OBM consider expanding the use of Sherpa by:

1. Consulting with the Department of Information Technology to implement daily integration between Lawson and Sherpa. With the Lawson upgrade set for 2028, OBM should also coordinate with ERP consultants to ensure continued system integration with Sherpa.
2. Grant read-only access to department managers to pull forecasting reports. Read-only access is not expected to incur additional costs and OBM is able to develop standard Sherpa reports. Departmental access to reporting could result in increased transparency and better allow departments to complete independent projections, reducing OBM staff time on these tasks.
3. Consider if utilizing Sherpa for automated budget requests with built-in workflow approvals provides sufficient benefit to justify additional license costs.

Observation 5: Enhance OBM Training Structure, Delivery, and Departmental Engagement

OBM has developed several training materials for departments on budgetary processes. This includes, but is not limited to:

- Recording of prior training sessions on how to complete standard forms such as budget requests and budget adjustments.
- Documented procedures on complex processes (e.g. Setting up grants and year-end decertification)

DIA conducted stakeholder surveys and peer benchmarking of three similar sized or structured counties within Ohio to help validate needs and identify practical improvement opportunities by combining internal feedback with external best practices. We noted consistent input that suggested OBM practices could enhance departmental relations through additional OBM training.

Potential Effect

Enhancing training accessibility and structure may help reduce confusion, strengthen consistency, and decrease the likelihood of mid-year budget adjustments.

Enhancement Opportunities

DIA recommends the following to enhance departmental relations through additional OBM training:

1. Increased scheduled live training to include timely updates on processes or budgeting considerations. A formal training schedule enhances consistency, improves user understanding of budget requirements, and supports more accurate and timely budget submissions across departments and agencies.
2. Publicize current training materials available on a regular and strategically timed basis.
3. Development of shorter, topic-specific training materials.

Observation 6: Establish Budget Stabilization (Rainy-Day) Funds

Based on reports and presentations from OBM, the County's two main operating funds, the HHS Levy Fund and the General Fund, were at or below required reserve levels in 2026. These reserves are held within the funds themselves rather than in a separate reserve balance account, such as a Budget Stabilization Fund, which is considered a best practice in governmental budgeting and demonstrates financial stewardship.

GFOA recommends that governments adopt a formal policy specifying the level of unrestricted fund balance to maintain in the General Fund and advises keeping at least two months of regular operating revenues or expenditures in unrestricted balance, a requirement already established in the County Code. The Auditor of State's Bulletin 2011-004 also states that Ohio subdivisions may create reserve balance accounts by resolution or ordinance under ORC 5705.13 to help stabilize budgets against cyclical revenue and expenditure changes.

The County's General Fund is the main operating fund and primary unrestricted financial account for the county budget. The HHS Levy Fund is a dedicated local revenue fund, primarily generated through voter-approved property tax levies, used to finance public health, social services, and community welfare programs throughout Cuyahoga County.

Potential Effect

A budget stabilization fund helps governments maintain sufficient fund balances to manage current and future risks, such as revenue declines or unexpected expenses, and to support stable tax rates. Under current County practices, reserve balances in the General Fund and the HHS Levy Fund can be drawn down without further restrictions.

Enhancement Opportunities

To safeguard the County's fiscal position against economic uncertainty, fiscal emergencies, and budget shortfalls, DIA recommends establishing a reserve balance account, also known as a budget stabilization or rainy-day fund, for both the General Fund and the HHS Levy Fund under ORC 5705.13(A)(1), through an amendment to County Code Section 701.09.

Under ORC 5705.13, the establishing ordinance or resolution must specify the account's purpose, the fund in which it will reside, and the total amount to be reserved. Annual transfers into the account may not exceed five percent of the prior fiscal year's credited revenue or one-sixth of the prior fiscal year's expenditures for that fund, whichever amount is greater.

Observation 7: Strengthen Compliance with County Code

County Code requires OBM to compile and publish several reports on a scheduled basis. One of which is the outstanding loan report for all county agencies.

County Code Chapter 701.07(e): OBM, in coordination with the Department of Development, the Department of Housing and Community Development, and other County agencies, as needed, shall maintain and publish annually by March 31st of each year a list of all outstanding loans made by the County, including the amount, interest rate, and term of each loan and the amount of each loan that may be forgivable, if any. OBM shall determine a written process for determining a reasonable and prudent portion of the total loan amount to hold in reserve against nonpayment of loans or the exercise of forgivable loan provisions. This reserve amount shall be reported as a reserve on balance against the General Fund, and it shall be updated at least quarterly with respect to new loans and at least annually with respect to the status of existing loans.

Upon review of the outstanding loan report, OBM did not demonstrate compliance with the code requirement mandating a written process for establishing a prudent loan-loss reserve and reporting that reserve against the General Fund. During 2025, OBM did not produce evidence of a documented methodology for calculating reserve levels, nor did it report or update such reserves on a quarterly or annual basis as required.

Potential Effect

Failure to establish and maintain the required reserve process limits the County's ability to identify and plan for potential loan defaults or forgivable loan obligations. Additionally, it results in non-compliance with County Code.

Enhancement Opportunities

DIA recommends OBM develop and formally document a comprehensive written process for determining a reasonable and prudent reserve for loan balances. The process should consider methodology, assumptions, and criteria used to calculate required reserve levels. Additionally, OBM should implement procedures to ensure that reserve amounts are reported as part of the General Fund balance in accordance with code requirements.