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Management Letter

Orange City School District
Cuyahoga County
32000 Chagrin Boulevard
Pepper Pike, Ohio 44124

To the Members of the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Orange City School District, Cuyahoga County, Ohio (the "District"), in accordance with *Government Auditing Standards*, as of and for the fiscal year ended June 30, 2025 and have issued our report thereon dated December 22, 2025.

Government Auditing Standards require us to report significant internal control deficiencies and material weaknesses, fraud, and illegal acts (including noncompliance with laws and regulations) and also abuse and noncompliance with contracts and grant agreements that could directly and materially affect the determination of financial amounts. We have issued the required report dated December 22, 2025, for the fiscal year ended June 30, 2025.

Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires that we report all material (and certain immaterial) instances of noncompliance, significant deficiencies, and material weaknesses in internal control related to major federal financial assistance programs. We have issued the required report dated December 22, 2025 for the fiscal year ended June 30, 2025.

We are also submitting the following comment for your consideration regarding the District's compliance with applicable laws, regulations, grant agreements, contract provisions, and internal control. This comment reflects a matter that does not require inclusion in the reports *Government Auditing Standards* or Uniform Guidance require. Nevertheless, this comment represents a matter for which we believe improvements in the compliance or internal control or operational efficiency might be achieved. Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing this recommendation. However, this comment reflects our continuing desire to assist the District. If you have any questions or concerns regarding this comment, please do not hesitate to contact us.

Noncompliance Citation

Criteria: Ohio Revised Code (ORC) 5705.10(I), states that "Money paid into any fund shall be used only for the purposes for which such fund is established." Furthermore, local governments are mandated to independently verify the legitimacy of requests and validate the identity of the requester before making any changes to payment, investment, or banking information. According to Auditor of State Bulletin 2024-003, these verification steps are critical to prevent payment re-direct and business email compromise schemes, where cybercriminals impersonate trusted vendors or employees to redirect funds into fraudulent accounts. The guidelines set forth by the bulletin and ORC ensure the prevention of fraudulent activities and the proper utilization of funds.

Condition: The District fell victim to a payment re-direct scheme. The District received an email from an individual posing as a legitimate vendor, requesting a change in the vendor's banking information. The District had processes/controls in place when such requests are made to ensure the information provided is accurate and the payment is processed to the correct vendor. However, a vital step in which the District's controls are to verify the request from the vendor through proper channels was not performed. Without independently verifying the request, the District processed the payment to the fraudulent account provided by the cybercriminal. This resulted in the disbursement of funds not in accordance with their intended purpose, violating ORC 5705.10.

Effect: As a result of the payment re-direct scheme, the District transferred funds amounting to $619,984, to an erroneous vendor account. This led to a direct financial loss for the District, as the funds were redirected to a fraudulent account controlled by the cybercriminal. The District was able to recoup the full amount through insurance recoveries.

Recommendation: We recommend the District implement and rigorously follow the guidelines outlined in the Auditor of State Bulletin 2024-003 and ensure compliance with ORC 5705.10. This includes:

- Independently verifying all requests to change payment, investment, or banking information through in-person communication or by using independently verified contact information from a validated source.
- Providing continuous training and education to employees on recognizing and preventing cyber and phishing threats.
- Utilizing additional layers of authentication and security, such as positive pay and ACH Debit Block programs.
- Establishing internal policies that require secondary approval for all payment requests and changes to payment instructions.

By adopting these measures, the District can enhance its security protocols, ensure proper usage of funds, and reduce the risk of falling victim to similar schemes in the future.

This comment is intended for the information and use of the members of the Board of Education and management of Orange City School District and is not intended to be and should not be used by anyone other than these specified parties. Accordingly, this communication is not suitable for any other purpose.

Julian & Grube, Inc.

Julian & Grube, Inc.
December 22, 2025