

Office of Parish Finance Parish Bulletin

TOPIC

Bank Fraud Prevention for Parish Checking Accounts

INTRODUCTION

Financial fraud continues to rise. The Federal Trade Commission reported that in 2021 alone, consumers lost more than \$5.8 billion to fraud. That is an increase of more than 70 percent over the previous year, with more than \$2.3 billion of reported losses attributable to imposter scams.¹ Our Parishes are unfortunately not immune, with several instances of both check fraud and ACH fraud having been uncovered just this year.

In order to better serve our mission and be good custodians of Parish finances, all our locations are expected to take prudent and proactive steps that strengthen internal fiscal controls, including bank fraud prevention steps. The Archdiocese of Denver offers crime coverage²; however, this is not guaranteed if the Parish has not taken the appropriate preventative steps discussed further herein.

This bulletin discusses one such proactive approach: bank fraud prevention, most commonly referred to as “positive pay”.³

Who is this Parish Bulletin intended to assist?

Bulletin content is intended to assist both pastors and business managers.

What is a positive pay?

Positive pay is an automated cash-management service used by financial institutions [and] employed to deter check fraud. Banks use positive pay to match the checks a company issues with those it presents for payment. Any check considered suspect is sent back to the issuer for examination. The system acts as a form of insurance for a company against fraud, losses, and other liabilities to the

¹ To see the article from the FTC with more information please click on the following link: <https://www.ftc.gov/news-events/news/press-releases/2022/02/new-data-shows-ftc-received-28-million-fraud-reports-consumers-2021-0>

² In the Archdiocese of Denver’s estimation, it is likely in the future that our insurance carriers will require bank fraud prevention to be in place in order to offer crime coverage.

³ The phrase “positive pay” is a common descriptor for the bank fraud prevention service addressed in this Bulletin; however, it should be understood that some financial institutions use a different description for this service.

bank. There is generally a charge incurred for using it, although some banks now offer the service for a reduced fee or free.⁴

When a Parish signs up for this service through its financial institution, the bank will match the check number, dollar amount, and account number of each check presented *against* a list provided by the Parish (to be uploaded in a file format designated by the bank).

Most banks also extend this service to include the matching of the check 'payee.' This is called 'positive payee' and addresses a common fraud tactic known as 'check washing' where the payee on an issued check is altered (when speaking with your Parish's financial institution, we advise that you confirm that 'positive payee' is part of the 'positive pay' service).

When the information does not match the check, the bank notifies the Parish through an exception report and withholds payment until the Parish advises the bank to accept or reject the check. *Note: The default choice to accept or reject a check for payment should always be set to 'reject'.*

For Parish's utilizing electronic banking, your bank or credit union should also offer the same service for electronic funds transfer (EFT) activity. Commonly referred to as ACH positive pay, this service allows the parish to review or pre-approve all EFT payments before they are allowed to clear the bank account. EFT fraud is increasing at an alarming rate and the dollar amounts tend to be larger compared to check fraud. Therefore, this service is also highly recommended.

Why is positive pay a good idea?

Why should a Parish sign up for positive pay when available? Three words: *proactive risk management.*

That national body generally known as COSO (Committee of Sponsoring Organizations) long ago established a framework to define risk management for companies. Part of the defined risk management is control activities. Those activities are then further broken down into proactive and reactive activities. As you might expect, proactive risk management comes before fraud occurs, identifying weaknesses in systems and determining how to prevent fraud from occurring.

Clearly positive pay is proactive risk management.

Though it does involve constant monitoring of your Parish system (in this case uploading check information to your Parish bank), engaging the positive pay service will assist a Parish with fraud prevention.

⁴ See 'positive pay' definition at the following link: <https://www.investopedia.com/terms/p/positive-pay.asp>

How do I start using positive pay?

Contact your location's financial institution, ask if positive pay is offered, sign up (negotiate a fee decrease / waiver where possible) and understand the file format needed to upload data from Parish check runs (note: smaller credit unions may not offer positive pay; see next section).

Typically, a bank will charge for positive pay for each account with check writing. Per our research, the average positive pay fee is \$25 per account, though local banks (such as First Bank) may be willing to decrease / waive the fee(s) if asked and/or upon some negotiation. A fee waiver is less likely to be granted by a national bank.

What if my bank or credit union does not offer positive pay?

If your Parish bank or credit union does not offer positive pay, your Parish is expected to explore other available services, or an equivalent fraud prevention service, and otherwise strongly encouraged to switch banking institutions.⁵ Additionally, there are other ways to be proactive in your internal financial control environment.

For preventing check fraud, the following continue to be excellent measures:

- Keeping checks locked in a safe place with controlled access.
- Following up on 'stale' (uncashed) checks after 90 days.
- Checking (by Pastor) Parish bank account transactions daily.
- Reconciling (by business managers) all Parish checking accounts in a timely fashion, but at least no less often than monthly.

In addition, please review the posted guidance on internal control best practices for cash at the following mission support link:

<https://missionsupport.archden.org/knowledgebase/fraud-best-practices-checklist-2/>

Thank you. If Parish personnel have any questions or require further clarification, please reach out to the Archdiocese of Denver's Office of Parish Finance at aodparishfinance@archden.org.

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⁵ Currently, the Archdiocese of Denver has business relationships with First Bank and Citywide Banks, among others. If your location is interested in exploring whether to work with one of these financial institutions, contact the Office of Parish Finance.