

RISK ALERT

Date: July 2, 2024
To: All Parishes, Schools, and Agencies
Cc: Cory Nardoni
From: Internal Audit
Subject: Mobile Payment Services

We have received numerous questions from parishes regarding the use of mobile payment services, such as Venmo, Square, and PayPal for processing payments when transacting with donors, customers, and vendors in connection with both the growing trends toward adopting newly available technology. The Archdiocese recommends the “*Clover Go*” point-of-sale (POS) device as it 1) is designed for organizational use, 2) does not allow outbound payments, 3) offers bank grade security protections, 4) transfers all funds within the next business day, 5) has a comparatively low fee of 2% and 6) has sufficient reporting capabilities.

In our effort to assist Archdiocesan organizations in answering questions on this topic, we have performed additional research related to these services. Please keep in mind that Mobile Payment Services is an industry that is continually changing and evolving. We will do our best to monitor the latest changes to available products and update this memo as appropriate. Summarized below are items parishes should consider before choosing a payment application.

1. **Peer-to-Peer Solutions** – Many mobile payment services are designed for person-to-person (peer-to-peer) and individual use rather than for organizational use. These services connect directly to *personal* bank accounts and are not designed to be connected with business bank accounts. For example, some versions of Venmo and Zelle are designed as peer-to-peer applications. While services like Venmo now allow charity profiles, those profiles must still be associated with a personal Venmo account. Other services such as Square can be connected to a business or personal account. Parishes should avoid using services that link to personal accounts, because there is an increased risk of misappropriation resulting from the need to transfer funds from the personal account to the parish’s account. In order to protect the parish and the individuals involved, parishes should only use mobile payment services that do not require the association of a personal account.

The Clover Go device offered through SLAF is designed for organizational use and only allows a business bank account with a valid EIN (Federal Tax ID) to link to the service.

2. **Tax Liabilities** – Payments received through a mobile payment service may be taxable income to the owner of the account to which funds are deposited. For example, if money from a parish

fundraising event goes into a personal account, that money may be taxable to the *individual* owner of the account and the accountholder may receive a Form 1099. Typically, those individuals do not enjoy tax-exempt status. To protect individuals from undue tax consequences, parishes should only use mobile payment services designed for use by a business or organization, and should track all activity which goes through that account.

3. **Outbound Payments** – Some applications allow for not only inbound receipts, but also outbound payments to vendors or others. Parishes should not use services through which the parish or organization can make payments to others. For example, Venmo and PayPal allow payments to be made *from the account*, and this could circumvent your existing oversight and review controls. Parishes should adhere to the policies and controls around out-bound disbursements to vendor and others, and should avoid any payment options that could circumvent cash disbursement controls.

The Clover Go service is designed to accommodate *only inbound* payments.

4. **Reviews** – Parishes should review the mobile payment service’s security, fraud and privacy policies. These services often do not provide “bank-grade” security protections. As such, the same protections that banks provide in regards to stolen funds are not available. There are many internal control standards such as PCI (payment card industry) compliance and other standards. In the absence of some assurance about our service providers’ controls, management should exercise diligence in reviewing all transactions. Further, parishes should ensure that all legal and regulatory requirements are met.

The Clover Go service meets the required industry and security standards.

5. **Delayed Payments** – Parishes should consider the time lag between when payments are earned and when they are applied to the parish’s bank account. For example, Square’s website states, “if you have a 20% reserve rate with a 90-day duration, the 20% set aside in your reserve today will be released back to your account 91 days from now. There is no minimum requirement on your reserve balance (<https://squareup.com/help/us/en/article/6832-reserves-faq>).” In other words, they can reserve as much as they want for up to 90 days.

The Clover Go service transfers 100% of the parish proceeds to the parish account within two days.

6. **Fees** – Parishes should consider the transaction fees charged by each service provider. For example, PayPal and Square may charge a fee in excess of 3% and chargeback fees of \$20 per transaction, while the Clover Go device may be borrowed free of charge from the St. Louis Archdiocesan Fund (SLAF), or parishes can purchase units at a cost of about \$115 each. The transaction fee charged by SLAF to the parish is 2%, which is lower than many other mobile payment services. Parishes may contact SLAF for additional details regarding Clover Go.
7. **Reporting** – Parishes should consider the reporting capabilities of any mobile payment services application they consider. Applications should be capable of supporting multiple users with distinct roles. For example, reports should be distributed to bookkeepers, or an individual designated by the parish who is *not* the party receiving the funds/facilitating the transaction.

In light of this information, our office strongly discourages the use of mobile payment services designed for peer-to-peer use, services that are linked to personal accounts, and/or services from which funds can be disbursed. We believe the timeliness of deposits, fees charged and reporting functionality should also be considered by parishes before accepting a mobile payment service provider.

Parishes may consider making use of already approved online payment services such as FACTs, Our Sunday Visitor (OSV), Faith Direct, etc. Some of these providers may offer point of sale devices that can be used with relatively low risk.

Please contact Parish Support at (314)792-7716, or contact the office of Internal Audit if you would like to discuss other alternatives or need help evaluating a payment application you are considering for use by your parish or parish organization. In the meantime, God Bless.