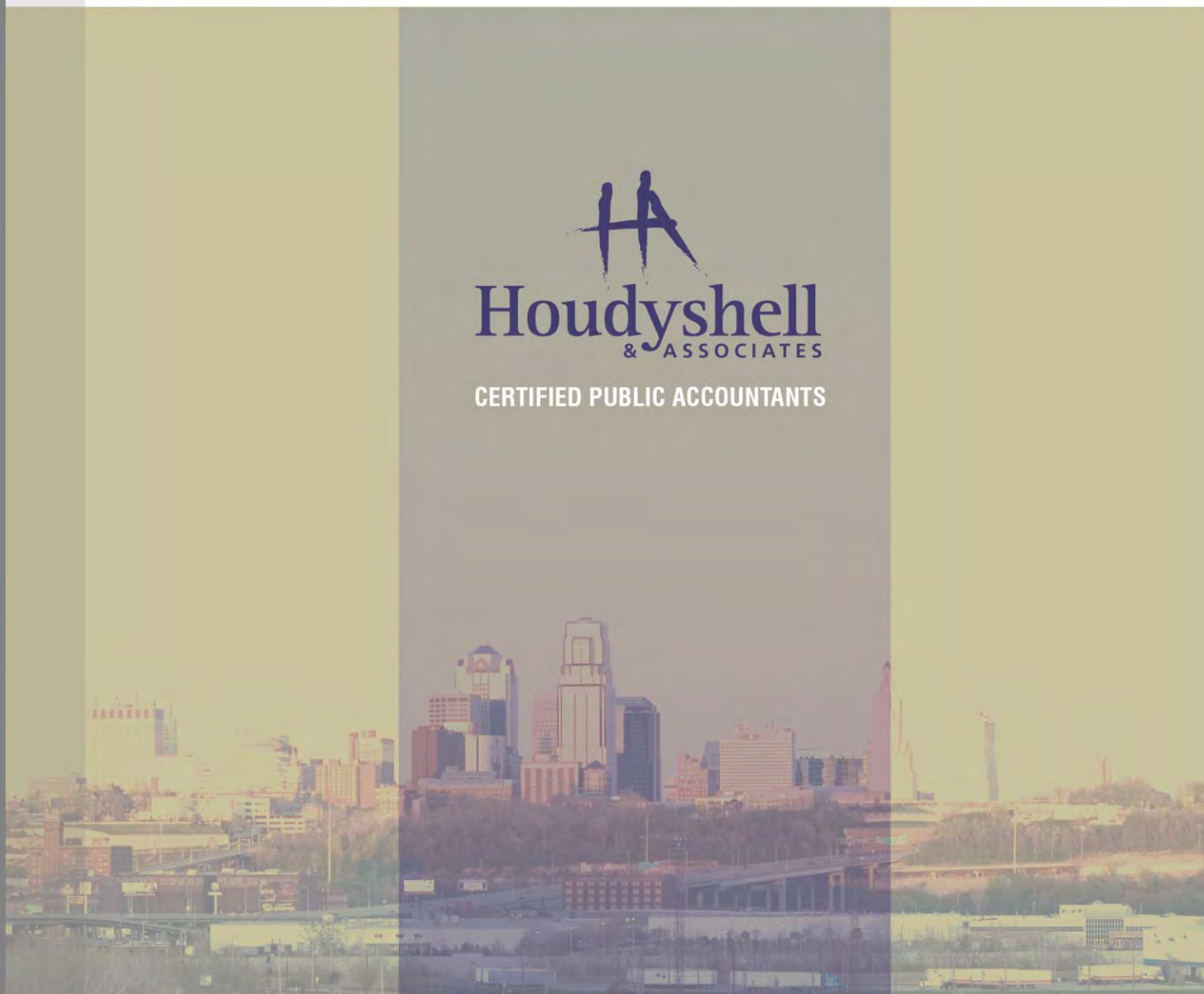# Benefit Administrative Services International Corporation

SOC 1 Type II -
Report on the Description of its Payroll Processing
System and on the Suitability of the Design and the
Operating Effectiveness of its Controls

For the period of January 1, 2017 to August 15, 2017

Houdyshell
& ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Service Auditor's Report on BASIC's Description of Its Payroll Processing System and the Suitability of the Design and Operating Effectiveness of Controls

Management of Benefit Administrative Services International Corporation d/b/a BASIC

We have examined BASIC's description of its payroll processing system entitled "BASIC's Description of Its Payroll Processing System" for processing user entities' transactions throughout the period January 1, 2017 to August 15, 2017 (description) and the suitability of the design and operating effectiveness of controls included in the description to achieve the related control objectives stated in the description, based on the criteria identified in "BASIC's Assertion" (assertion). The controls and control objectives included in the description are those that management of BASIC believes are likely to be relevant to user entities' internal control over financial reporting, and the description does not include those aspects of the payroll processing system that are not likely to be relevant to user entities' internal control over financial reporting.

The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls assumed in the design of BASIC's controls are suitably designed and operating effectively, along with related controls at the service organization. Our examination did not extend to such complementary user entity controls, and we have not evaluated the suitability of the design or operating effectiveness of such complementary user entity controls.

BASIC uses a subservice organization to provide its payroll processing application and replication hosting services. The description includes only the control objectives and related controls of BASIC and excludes the control objectives and related controls of the subservice organization. The description also indicates that certain control objectives specified by BASIC can be achieved only if complementary subservice organization controls assumed in the design of BASIC's controls are suitably designed and operating effectively, along with the related controls at BASIC. Our examination did not extend to controls of the subservice organizations, and we have not evaluated the suitability of the design or operating effectiveness of such complementary subservice organization's controls.

In Section II, BASIC has provided an assertion about the fairness of the presentation of the description and suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description. BASIC is responsible for preparing the description and assertion, including the completeness, accuracy, and method of presentation of the description and assertion, providing the services covered by the description, specifying the control objectives and stating them in the description, identifying the risks that threaten the achievement of the control objectives, selecting the criteria stated in the assertion, and designing, implementing, and documenting controls that are suitably designed and operating effectively to achieve the related control objectives stated in the description.

Our responsibility is to express an opinion on the fairness of the presentation of the description and on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description, based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether, in all material respects, based on the criteria in management's assertion, the description is fairly presented and the controls were suitably designed and operating effectively to achieve the related control objectives stated in the description throughout the period January 1, 2017 to August 15, 2017. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

An examination of a description of a service organization's system and the suitability of the design and operating effectiveness of controls involves—
- performing procedures to obtain evidence about the fairness of the presentation of the description and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description, based on the criteria in management's assertion.
- assessing the risks that the description is not fairly presented and that the controls were not suitably designed or operating effectively to achieve the related control objectives stated in the description.
- testing the operating effectiveness of those controls that management considers necessary to provide reasonable assurance that the related control objectives stated in the description were achieved.
- evaluating the overall presentation of the description, suitability of the control objectives stated in the description, and suitability of the criteria specified by the service organization in its assertion.

The description is prepared to meet the common needs of a broad range of user entities and their auditors who audit and report on user entities' financial statements and may not, therefore, include every aspect of the system that each individual user entity may consider important in its own particular environment. Because of their nature, controls at a service organization may not prevent, or detect and correct, all misstatements in processing or reporting transactions. Also, the projection to the future of any evaluation of the fairness of the presentation of the description, or conclusions about the suitability of the design or operating effectiveness of the controls to achieve the related control objectives, is subject to the risk that controls at a service organization may become ineffective.
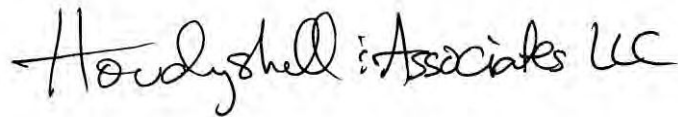
The specific controls tested and the nature, timing, and results of those tests are listed in Section IV.

In our opinion, in all material respects, based on the criteria described in BASIC's assertion—

a. the description fairly presents the payroll processing system that was designed and implemented throughout the period January 1, 2017 to August 15, 2017.

b. the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period January 1, 2017 to August 15, 2017 and subservice organizations and user entities applied the complementary controls assumed in the design of Controls Specified by BASIC throughout the period January 1, 2017 to August 15, 2017.

c. the controls operated effectively to provide reasonable assurance that the control objectives stated in the description were achieved throughout the period January 1, 2017 to August 15, 2017 if complementary subservice organization and user entity controls assumed in the design of Controls Specified by BASIC operated effectively throughout the period January 1, 2017 to August 15, 2017.

This report, including the description of tests of controls and results thereof in Section IV, is intended solely for the information and use of management of BASIC, user entities of BASIC's payroll processing system during some or all of the period January 1, 2017 to August 15, 2017, and their auditors who audit and report on such user entities' financial statements or internal control over financial reporting and have a sufficient understanding to consider it, along with other information, including information about controls implemented by user entities themselves, when assessing the risks of material misstatement of user entities' financial statements. This report is not intended to be, and should not be, used by anyone other than the specified parties.

Houdyshell Associates LLC

Kansas City, Missouri
September 29, 2017

SECTION II.   BASIC'S ASSERTION

__BASIC's Assertion__

We have prepared the description of Benefit Administrative Services International Corporation d/b/a BASIC's payroll processing system entitled "BASIC's Description of Its Payroll Processing System," for processing user entities' payroll transactions throughout the period January 1, 2017 to August 31, 2017 (description) for user entities of the system during some or all of the period January 1, 2017 to August 31, 2017, and their auditors who audit and report on such user entities' financial statements or internal control over financial statement reporting and have a sufficient understanding to consider it, along with other information, including information about controls implemented by subservice organizations and user entities of the system themselves when assessing the risks of material misstatements of user entities' financial statements.

BASIC uses a subservice organization to processing user entities' payroll transactions. The description includes only the control objectives and related controls of BASIC and excludes the control objectives and related controls of the subservice organizations. The description also indicates that certain control objectives specified in the description can be achieved only if complementary subservice organization controls assumed in the design of our controls are suitably designed and operating effectively, along with the related controls. The description does not extend to controls of the subservice organizations.

The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls assumed in the design of BASIC's controls are suitably designed and operating effectively, along with related controls at the service organization. The description does not extend to controls of the user entities.

We confirm, to the best of our knowledge and belief, that:

1) The description fairly presents the payroll processing system made available to user entities of the system during some or all of the period January 1, 2017 to August 31, 2017 for processing user entities' payroll transactions as it relates to controls that are likely to be relevant to user entities' internal control over financial reporting. The criteria we used in making this assertion were that the description:

   a) Presents how the system made available to user entities of the system was designed and implemented to process relevant user entity transactions, including, if applicable:

      i) The types of services provided, including, as appropriate, the classes of transactions processed.

      ii) The procedures, within both automated and manual systems, by which those services are provided, including, as appropriate, procedures by which transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports and other information prepared for user entities of the system.

      iii) The information used in the performance of the procedures including, if applicable, related accounting records, whether electronic or manual, and supporting information involved in initiating, authorizing, recording, processing, and reporting transactions; this includes the correction of incorrect information and how information is transferred to the reports and other information prepared for user entities.

      iv) How the system captures and addresses significant events and conditions other than transactions.

      v) The process used to prepare reports and other information for user entities.

      vi) The services performed by a subservice organization, if any, including whether the carve-out method or the inclusive method has been used in relation to them.

      vii) The specified control objectives and controls designed to achieve those objectives including, as applicable, complementary user entity controls and complementary subservice organization controls assumed in the design of the controls.

      viii) Other aspects of our control environment, risk assessment process, information and communications (including the related business processes), control activities, and monitoring activities that are relevant to the services provided.

b) Includes relevant details of changes to the payroll processing system during the period covered by the description.

c) Does not omit or distort information relevant to the system, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities of the system and their user auditors and may not, therefore, include every aspect of the payroll processing system that each individual user entity of the system and its auditor may consider important in its own particular environment.

2) The controls related to the control objectives stated in the description were suitably designed and operating effectively throughout the period January 1, 2017 through August 31, 2017 to achieve those control objectives if subservice organizations and user entities applied the complementary controls assumed in the design of BASIC's controls throughout the period January 1, 2017 to August 31, 2017. The criteria we used in making this assertion were that:

a) The risks that threaten the achievement of the control objectives stated in the description have been identified by management.

b) The controls identified in the description would, if operating effectively, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved.

c) The controls were consistently applied as designed, including whether manual controls were applied by individuals who have the appropriate competence and authority.

Michael Stoddard, Chief Operating Officer
BASIC

SECTION III. BASIC'S DESCRIPTION OF ITS PAYROLL PROCESSING SYSTEM

Company Background and Organization

BASIC was formed in 1989 to provide HR solutions to other businesses. In 2003, BASIC purchased a company that offered outsourced payroll processing service as a way to expand its suite of HR services and meet the needs of a growing customer base. From this acquisition, BASIC Payroll Plus was born and offers multiple payroll services to companies located throughout the United States. BASIC Payroll Plus serves approximately 700 clients and pays over 35,000 client employees each month. BASIC is a Sub-Chapter S Corporation incorporated in Michigan and is owned by two shareholders, who serve as the President and Chief Operations Officer (COO) and are active in the day-to-day operations. Collectively, the shareholders have approximately 50 years of benefits, payroll and accounting experience.

In addition to Payroll services, BASIC is proud to offer FMLA, COBRA, Flex, and HRA services. BASIC services clients on a nationwide basis with operations in Michigan, Ohio, Arizona, Florida, California, and Missouri. Following is a graphical representation of BASIC's capabilities to serve customers:
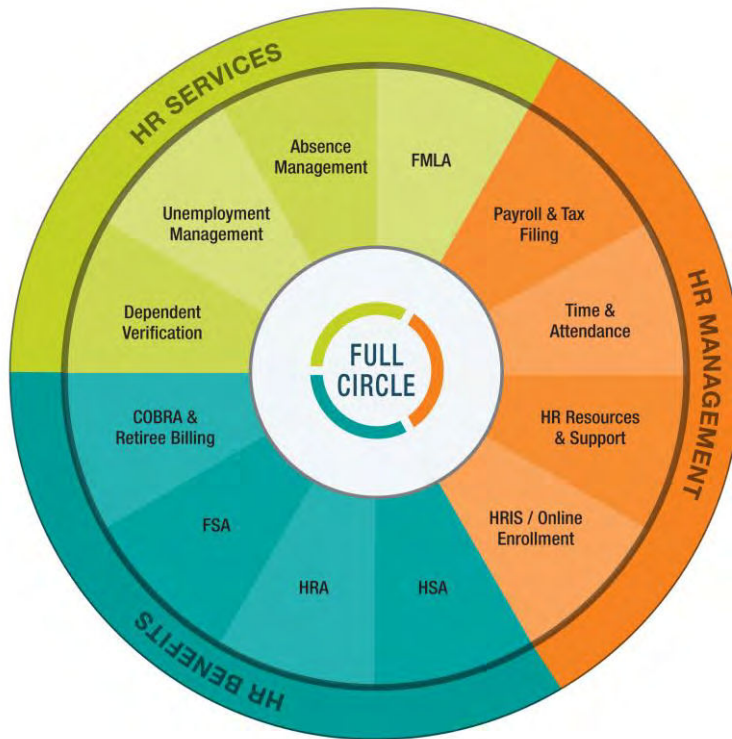
In order to enhance controls, the operations of BASIC are segregated into functional Departments. BASIC Payroll Plus consists of Operations, Tax, and Implementation teams. COBRA, Flex, HRA, FMLA Services and IT are all separate teams of BASIC's Operations Department as are the Sales and Finance Departments.

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The Senior Executive Team is made up of the President and the COO. The Executive Team includes not only the Senior Executive Team but also the Vice President of Sales, Vice President of Operations, Vice President of Payroll Operations, and the Vice President of Finance.

The President of BASIC oversees these departments, which performs the following:

- **Sales Department**: Responsible for new client sales, expanding services to current clients and obtaining the new client setup packet.
- **Operations Department**: Responsible for the management COBRA, FMLA, FSA, and HRA processes including customer service. Also, responsible for the management of Human Resources and IT.   The specific teams of the Operations Department are:
  - FMLA
  - COBRA
  - FSA
  - HRA
  - Human Resources
  - IT

The COO of BASIC oversees each of these departments, which perform the following:

- **Finance Department**: Responsible for the daily bank reconciliations and monitoring bank transactions.
- **Payroll Operations Department:** Responsible for the management of Payroll Operations and consists of the following teams:
  - **Operations Team**: Responsible for internal training, receiving and processing payroll information, client service,
  - **Tax Team**: Responsible for approval of new client tax setup, payment of taxes, and submission of filings.
  - **Implementation Team**: Responsible for new client setup or conversion, new client training on remote entry.

Scope of the Description

This description of BASIC's payroll processing system addresses only BASIC's payroll processing services provided to its user entities and excludes other services provided by BASIC. The description is intended to provide information for user entities of the payroll processing system and their independent auditors who audit and report on such user entities' financial statements to be used in obtaining an understanding of the payroll processing system and the controls over that system that are likely to be relevant to user entities' internal control over financial reporting. The description of the system includes certain business process controls and IT general controls that support the delivery of BASIC's payroll processing system.

BASIC uses Asure Software, a subservice organization, to provide its Evolution payroll processing application. The description includes only the control objectives and related controls of BASIC and excludes the control objectives and related controls of Asure Software.

SECTION III. BASIC'S DESCRIPTION OF ITS PAYROLL PROCESSING SYSTEM

Internal Control Framework

This section provides information about the five interrelated components of internal control at BASIC, including BASIC's
+ control environment,
+ information and communications,
+ risk assessment process,
+ monitoring activities, and
+ control activities.

Control Environment

The control environment sets the tone of an organization, influencing the control awareness of the organization. The control environment is embodied by the organization's awareness of the need for controls and the emphasis given to the appropriate controls through management's actions supported by its policies, procedures, and organizational structure.

The following are the primary elements of BASIC's control environment:
1. Commitment to integrity and ethical values
2. Oversight responsibility of management
3. Assignment of authority and responsibility
4. Commitment to competence
5. Accountability

Management's Philosophy and Operating Style

BASIC's management helps ensure that the company operates effectively and efficiently while remaining industry and client focused. Personnel turnover has been minimal. Senior management and operating management have frequent interaction in both formal and informal settings. BASIC's management continuously emphasizes the importance of the payroll and tax processing function and its role in ensuring the reliability of client data.

The Vice President of Operations and the Vice President of Payroll Operations are actively involved in the day-to-day operations activities of the company. They have open door communication policies. Every employee has access to them daily and they are visible to all employees on a daily basis to provide an opportunity for the employees to inform them of issues or concerns. They have weekly meetings with the staff members where feedback and suggestions are encouraged.

Assignment of Authority and Responsibility

The Executive Team and corresponding Managers have the ultimate responsibility for all activities within the entity, including the internal control system. This also includes assignment of authority and responsibility for operating activities, and establishment of reporting relationships and authorization protocols.

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Organizational Structure

An entity's organizational structure provides the framework within which its activities for achieving entity-wide objectives are planned, executed, controlled, and monitored.   Significant aspects of establishing an effective organizational structure include defining key areas of authority and responsibility and establishing appropriate lines of reporting.
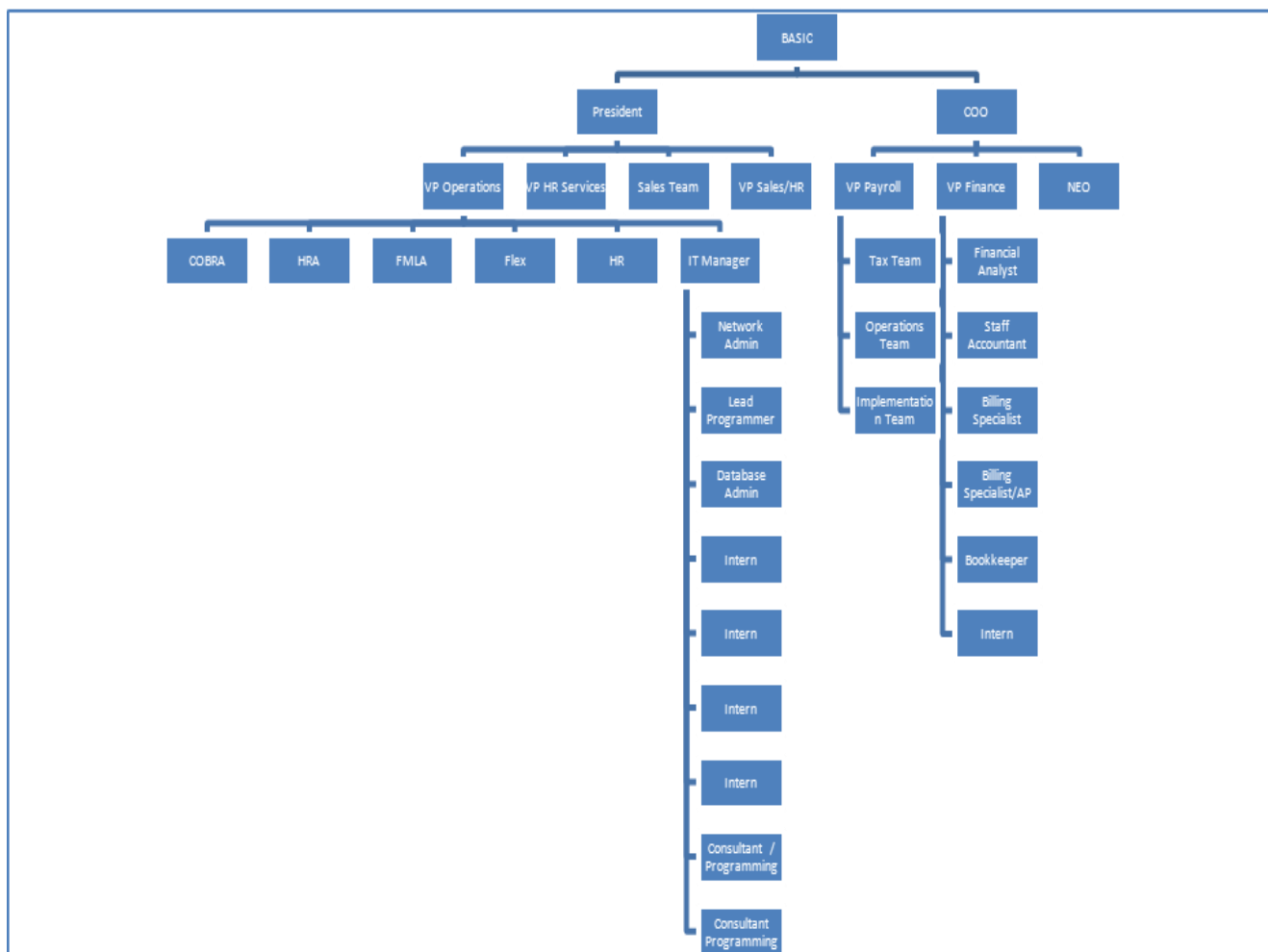
Each non-managerial employee's position has responsibilities outlined by published job descriptions that provide general functions and specific duties. Each employee is given written expectations of the position. It provides a basis for employee reviews and accountability.

Hiring Practices and Human Resource Policies

The formalized human resource policies include critical aspects of the employment process including: hiring, training and development, performance evaluations, advancement and termination. BASIC is committed to hiring and retaining the best qualified personnel. The hiring practices are formalized and carefully performed.   All candidates are interviewed and screened by at least three or four personnel,

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consisting of the HR Manager, Department Manager and co-workers. In addition, background, credit and criminal checks are conducted based on the position and its requirements. During the employee's first few days of employment, they meet with the Department Manager and HR Manager who discuss the importance of the sensitivity of the information being managed by the company and the importance of the organization's role in protecting clients' information.

Training

Training is an important part of the Executive Team's commitment to excellence. The Executive Team encourages employees' participation in outside continuing education and holds regular training sessions in-house to keep the employees' skills fine-tuned.

The Vice President of Payroll Operations holds meetings weekly for a variety of purposes. The meetings are attended by the leadership of BASIC Payroll Plus. Topics normally covered are reviewing Payroll Department priorities, working through the established Project Plans, discussion of Hot Clients, reporting of payroll weekly metrics and any updates that will be performed in the Software. These meetings can also include technical training. At the end of the meeting, each employee is given the opportunity to discuss items they feel are important and offer suggestions, which are encouraged throughout the meeting.

All new employees undergo training and observe seasoned veterans for approximately one week and then are observed another week before they begin to work on their own. Once they begin working independently, their work is reviewed before it is released until it is deemed they have an adequate understanding of their job duties.

Integrity and Ethical Values

The organization and management of BASIC establishes a control environment within which the employees must function. It is a framework for all aspects of internal control. This control environment includes such items as integrity and ethics, conflict of interest and commitment to excellence.

BASIC's business conduct is governed by a standard code of ethics to provide guidance for employees and inform clients on the way BASIC wishes to conduct business. As a member of Independent Payroll Provider's Association (IPPA), BASIC has adopted their published code of ethics. Responsibilities covered are avoiding misrepresentation, gifts, personal conduct, compliance, service standards, equitable practices, confidentiality, conflicts of interest, marketing, and financial reporting. New hires are instructed on these codes and they are reinforced through staff meetings.

Nondisclosure Agreement

All employees are required to review and sign BASIC's Nondisclosure Agreement prior to gaining access to client data. The agreement provides employees with clear guidelines of the employee's role in protecting client information. The Executive Team reviews the company's confidentiality guidelines at regularly scheduled staff meetings.

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Commitment to Competence

Competence should reflect the knowledge and skills required to accomplish tasks that define an individual's job.   Through consideration of an entity's objectives and the strategies and plans for achievement of those objectives, management specifies the competence levels required for particular jobs and translates those levels into requisite knowledge and skills. BASIC management has analyzed and defined the tasks and knowledge requirements that comprise the positions within the organization. They consider such factors to the extent to which individuals must exercise judgment and the extent of related supervision when making hiring decisions. BASIC management communicates this to personnel through the interview process, the establishment of performance and development plans, and through periodic meetings with personnel.

Information and Communication

BASIC utilizes various methods of communication to help ensure employees understand their individual roles and company controls, and to help ensure significant events are communicated timely. All new employees are provided with orientation and training programs.   Time sensitive information is communicated verbally and by email to all employees. The Vice President of Payroll Operations conducts staff meetings as frequently as needed.

BASIC also communicates with their clients on a routine basis. Each client organization has a payroll specialist who communicates via phone, fax, letter and e-mail with the client organization regularly. In addition, flyers are added to processed payroll or sent via Internet e-mail for important announcements or reminders. Periodic training classes are offered to client personnel.

Risk Assessment and Monitoring

Management is responsible for identifying the risks that threaten achievement of the control objectives stated in management's description of the service organization's systems.   Management has implemented a process for identifying relevant risks. This process includes estimating the significance of identified risks, assessing the likelihood of their occurrence, and determining appropriate actions to address them.   However, because control objectives relate to risk(s) that controls seek to mitigate, management identified control objectives when designing, implementing, and documenting their systems.

Risk Identification

BASIC has considered significant interactions between itself and relevant external parties and risks that could affect the organization's ability to provide reliable payroll processing services to its user entities. Key members of the management and operational teams meet on a regular basis to identify and review risks to the systems. Management considers risks that can arise from both external and internal factors including:

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External Factors

- Technological dependencies from vendors could become unavailable, resulting in the inability to provide payroll processing services or the need to make changes to the payroll systems or application provider.
- Changing customer needs or expectations that could affect product development, production process, customer service, or pricing.
- Competition that could alter marketing or service activities.
- New legislation and regulation that could force changes in operating policies and strategies.
- Natural catastrophes that could lead to changes in operations or information systems and highlight the need for contingency planning.
- Economic changes that could have an impact on decisions related to financing, capital expenditures, and expansion.

Internal Factors

- A disruption in information systems processing that could adversely affect the entity's operations.
- The quality of personnel hired and methods of training and motivation that could influence the level of control consciousness within the entity.
- A change in management responsibilities that could affect the way certain controls are affected.
- The nature of the entity's activities, and employee accessibility to assets, that could contribute to misappropriation of resources.

BASIC's risk assessment process focuses on supporting management decisions and responding to potential threats by assessing risks and identifying important decision factors. BASIC management oversees risk management ownership and accountability. Senior management, representing different operational areas, is involved in the risk identification process. Management identifies elements of business risk including threats, vulnerabilities, safeguards, and the likelihood of a threat, to determine the actions to be taken.

Risk Analysis

BASIC' risk analysis methodology varies due to the wide variety of risks and difficulty in quantifying risks; however, the risk analysis process includes the following:

- Estimating the significance of a risk
- Assessing the likelihood (or frequency) of the risk occurring
- Considering how the risk should be managed via risk acceptance or mitigation by implantation of control activities

Risk analysis is an essential process to the entity's success. It includes identification of key business processes where potential exposures of some consequence exist. Once the significance and likelihood of risk have been assessed, management considers how the risk should be managed. This involves judgment based on assumptions about the risk and reasonable analysis of costs associated with reducing the level of risk. Necessary actions are taken to reduce the significance or likelihood of the risk occurring and identification of the control activities necessary to mitigate the risk. Management has identified these control activities and documented them in this report.

SECTION III. BASIC'S DESCRIPTION OF ITS PAYROLL PROCESSING SYSTEM

Internal controls are continuously evaluated and monitored by the Executive Team. The Executive Team reviews each department's functions and their compliance with laws and regulations using a variety of reports which are described in detail below:

- New clients are subjected to an evaluation process, including a credit check, prior to the new client implementation.
- The Payroll Operations Manager verifies that payrolls are properly processed for the day.
- Client specific ACH Impound Limits are entered into Evolution and monitored daily.
- Client NSF's for the amounts swept by BASIC Payroll Plus are monitored closely and reviewed daily by the Vice President of Payroll Operations.
- Monthly financial statements are reviewed by the President and COO and compared to the budget and prior year.
- The Vice President of Payroll Operations reviews weekly and monthly production statistics, number of clients processed in total and by Payroll Specialist check counts, new client revenue and other performance metrics.
- Audit Reports are generated nightly in Evolution and reviewed by Payroll Operations Management.

Vendor Management

In accordance with mandated organizational security requirements set forth and approved by management, BASIC has established a formal vendor management policy and supporting procedures. This policy and supporting procedures are designed to provide BASIC with a documented and formalized vendor management policy that is to be adhered to and utilized throughout the organization at all times. Additionally, compliance with the stated policy and supporting procedures helps ensure the confidentiality, integrity, and availability of BASIC's information systems. When using the services of various third-party outsourcing entities, a certain element of risk arises as responsibilities for critical initiatives are now in the hands of another organization. It's important to understand these risks, what they are, and how BASIC can readily identify any issues, concerns, or constraints pertaining to these risks and most importantly mitigate them. Such risks include compliance risk, transactional risk, strategic risk, operational risk, credit risk, and information technology risk. True vendor management is much more than just meeting regulatory compliance purposes - while though extremely important - many other considerations are to be looked upon. Specifically, vendor management initiatives for BASIC seek to help reduce costs, improve operations, strengthen security, while also improving relationships with all applicable third-party outsourcing entities. Vendors for BASIC are looked upon as instrumental organizations providing critical services, and as such, are to be taken seriously in every manner, which means assessing all aforementioned risk areas, while also striving for cost reductions, improvement of operations and security improvement. Thorough due diligence in vendor selection and analysis are performed. Contractual documentation is obtained, and continuous monitoring and management oversight is maintained.

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Monitoring of the Subservice Organizations

BASIC uses Asure Software, a subservice organization, to provide its Evolution payroll processing application. Management of BASIC, through its daily operational activities, monitors the services performed by Asure Software to ensure that operations and controls expected to be implemented at the subservice organization is functioning effectively. Management also holds periodic calls with the subservice organization to monitor compliance with the service level agreement, stay abreast of changes planned for the payroll application, and relay any issues or concerns to subservice organization management.

Transaction Processing

The primary control objective of BASIC Payroll Plus is to ensure that all transactions are properly initiated, authorized, recorded, processed, reported and maintained. These controls are evident in every aspect of the business. The core service areas of BASIC Payroll Plus are payroll conversion, payroll processing, payroll distribution, ACH processing, tax compliance, information technology and systems security.

BASIC Payroll Plus provides its clients with various service level options in order to fit its client's needs. Clients are able to contract with BASIC Payroll Plus on a service-by-service basis, determined by the products they require.

BASIC Payroll Plus provides all of its clients with a full service payroll solution that includes automatic payroll tax filing and depositing. There are many optional services that are available and are identified below:

- Positive Pay Checks, payroll checks are drawn on a BASIC Payroll Plus account, BASIC Payroll Plus handles all reconciliations
- Employee Direct Deposit
- New Hire Reporting
- Agency and Third Party Checks
- Delivery
- Additional State Tax Filing Jurisdictions
- General Ledger
- Check Reconciliation Spreadsheet
- 401K Process Reports/Transmission
- Quarterly 941's, Annual 940, and Year-end W-2's
- Timekeeping solution
- HR resources
- Customized interfaces

New Client Implementation

The Implementation Team is comprised of multiple teams including Sales, Operations and Tax and is headed by the Implementation Manager. The Implementation Team exists to ensure: 1) that the transition of payroll services is smooth, efficient, and error free, 2) all year to date wages are reconciled

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with both tax returns and tax payments, 3) the balancing and payment of tax liabilities is properly reconciled and communicated to the client, and 4) responsibility is established for the filing of all payroll tax returns and communicated to the client.   Procedures and checklists are followed to ensure the Implementation of new clients is complete and accurate. The Implementation Team works with the client to ensure that all the information is received timely and is accurate and complete.   The Implementation Team also works with the CSRs to familiarize them with the specifics of the client after the first few payrolls.

The Implementation Team follows specific procedures to ensure that all the client data is complete when received. Client Set-Up Forms are completed by the Sales Team in conjunction with the client to document all earnings and deduction taxability, tax agencies, filing frequencies, tax rates and any other special needs the client may have. BASIC Payroll Plus and the new client execute a Payroll Service Agreement to document each party's responsibilities and duties.

New clients are subjected to an evaluation process prior to the new client implementation. This process includes – receipt of all signed agreements and paperwork from the client, a copy of a check and/or the equivalent information from their bank, credit check of the company and other pieces, as outlined in the Credit Policy for BASIC Payroll Plus. All new clients are subjected to an evaluation process prior to the new client implementation. This process includes; a Site Visit, all incoming clients are visited at their principal place of business by the Sales Representative to validate existence. If a site visit is not possible, the prospect will only be accepted as a client if they have been referred by a known referral source. References are verified, personal background check of principals on startup businesses or bank reference; and OFAC checks.

Checklists and standard procedures are in place to review the accuracy of the imported data and balance key amounts, such as wages and tax amounts to the information provided by the client. All year-to-date payroll information must be balanced successfully prior to any payrolls being processed. A key control is a second person review of all the manually entered or imported data to ensure accuracy. A second person reviews the company setup and tax information and balances the client's tax returns and payment history. The employee demographics are reviewed by a second person, also. Once the review and verification process is completed, the Implementation Team performs the first several payroll runs for the new client and then communicates client information to the assigned CSR. For remote entry clients, when all reviews are completed, the Implementation Team works with the client to schedule the setup and training on Evolution.

Payroll Processing

The Payroll Operations Team consists of a dedicated group of Customer Service Representatives (CSR) to assist clients with their payroll. The CSR is responsible for supporting clients, which includes keying payroll data, assisting remote clients, balancing and submitting payrolls for processing. The CSRs ensure that each and every payroll is processed according to the schedule with the highest degree of accuracy and that the data is received from authorized sources.

Procedures have been implemented to ensure that payroll processing is scheduled and performed appropriately and deviations from the schedule are identified and resolved. Each CSR receives a list of their assigned scheduled payrolls for that week on Monday morning. The payrolls are marked off as

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processed and clients are called if the data is not received by 2:00 PM of the scheduled date.   The Payroll Operations Manager also reviews each processed payroll package and marks it off a master Scheduling Report to verify compliance with the processing schedule.   The Payroll Operations Manager and the Vice President of Payroll Operations reviews the Processed Payrolls Report during the end of day procedures, to confirm that all scheduled payrolls have been processed and packaged for distribution during the ACH file submission process.

Clients authenticate into BASIC Payroll Plus' payroll software through the Remote Access Server (RAS) using a unique user ID and password.   BASIC Payroll Plus manages the administration of the client's unique user ID and password.

The client is responsible for the accuracy of the payroll data entered in the payroll software.   The client is encouraged to run a Pre-Processing Payroll Register Report to verify the payroll data prior to submitting the payroll to BASIC for processing.   BASIC Payroll Plus assumes no responsibility for the accuracy of the payroll data for remote clients as it processes the data that was entered by the client.

All clients will from time to time submit payroll data changes to BASIC Payroll Plus and request those changes to be made to their database.   These non-transactional events could be pay rate changes, benefit deductions, bank accounts for direct deposits amongst other items like new or terminated employees.   The CSRs will review the submitted data from the client and manually input the data into Evolution.   Once the information has been updated, the CSR will verify the on-screen data with the source data for accuracy and completeness.   Payrolls other than regular payrolls, such as client corrections or service bureau correction runs must be approved by management prior to processing. The Evolution software, thru security features, requires these types of payrolls to appear on a queue which requires advanced level approval in order to be processed.

During payroll processing, the Evolution software calculates gross wages, taxable wages, employee and employer taxes, voluntary deductions and net pay.   Checks, direct deposit vouchers and reports are created during the payroll process.   The Evolution software detects if certain items are not set up properly, such as employee state data, and creates a log of these items.   If there are any corrections to be made, the CSR makes these corrections prior to completing the processing, or request assistance from the tax department for state and taxation issues.

In addition, the following is performed for all clients by the system and Management.

- An Audit Report is run on a daily basis and reviewed by the Vice President of Payroll Operations or the Tax Manager.   This report identifies Direct Deposit Changes, Wage Changes, Client Account Changes and Security Changes.   By analyzing this report, it shows a change to a client Account Number that can be verified for accuracy.   It can also show all changes to bank account/routing numbers to make sure a pattern isn't surfacing with those changes and rate changes to assure that they make sense and appear accurate.

- The Operation Team Leader reviews each processed payroll package to check that payrolls are properly processed.   The Operations Team Lead monitors payroll processing on a master Scheduling Report during the review of processed payrolls and it is compared and verified with

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the end of the day Processed Payroll report to assure that each payroll that was processed was delivered properly. Any differences are investigated and resolved.

➥ The Vice President of Payroll Operations, or other designated personnel, verifies the integrity of the ACH file by comparing the Processed Payrolls report with the number of clients that have ACH transactions for the day. When the numbers match, it ensures that each client that is processed has properly created an ACH file. Any differences are investigated and resolved.

Client specific ACH Impound Limits are entered into the system and monitored daily. These impound limits are based on their normal expected payroll amounts. Any exceptions are monitored and logged during the creation of the ACH file, are reviewed and approved by the Vice President of Payroll Operations.

Payroll Distribution

The Payroll Operations Manager is responsible for the distribution of each payroll. Procedures have been established for the production and distribution of payroll checks and reports. These procedures ensure that the checks and reports are produced and distributed completely, accurately and in accordance with client specifications. The Pack Out room is secured by a key FOB activated lock and only certain personnel have access.

Clients can elect to receive payroll reports and check stubs electronically or they can elect to have a package delivered to them which contains payroll reports and checks. If the client elects to electronically receive the payroll data – the transmission of that information is performed by the Evolution application and is sent automatically via email after the payroll is processed. The client specifies the reports and email addresses where to send the information. The report can be sent in an RWA format or PDF format. The RWA format is encrypted and requires a report reader in order to view the reports. If the report is sent via a PDF format, the reports are password protected, which encrypts them also. All check stubs are password protected.

If the client elects to receive a package of reports and checks – the following procedures are followed.

Checks and vouchers are printed on blank check stock that is specifically designed and printed with industry standard security protection. Some of the security features include an artificial watermark on the back of the check that can only be viewed at an angle to protect the document from scanner duplication and a micro-printed border that becomes distorted when duplicated.

Each client receives a report package for each processed payroll that can include the following standard reports:
1. Payroll Cover letter
2. Delivery Instructions
3. Check Register
4. Payroll Journal
5. Payroll Worksheet
6. Fax Coversheet

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    7.   Tax Liability Report

Once the payroll has been processed, the reports and checks are printed. Delivery instructions print as each payroll processes.   The payroll is then packaged by the Pack Out Specialist according to instructions from the client and ready for distribution via pickup, mail, or UPS.   All packaged payrolls are reviewed by the Payroll Operations Manager or designated CSR prior to distribution.   The Payroll Operations Manager is also responsible for confirming that outside delivery services have retrieved all packages and for communication as to special delivery and tracking of packages. Payrolls which have been processed but not delivered by the end of the day are stored in a secure location. Clients sign for payrolls which are delivered via UPS.

Tax Compliance

BASIC Payroll Plus has a full service tax-filing team that generates agency approved federal, state and local tax returns and payments.   Formalized procedures are followed to ensure the appropriate tax filings are complete, accurate and timely. Payments for Federal, State and Local taxes are remitted electronically for many agencies supporting electronic funds transfer. Checklists are prepared by taxing authority and client and are utilized to ensure that all monthly, quarterly and annual tax returns are filed, even if no payments were made.   The following reports are created by the tax staff to manage the tax payments and returns:

      ✦ **Due Date Report (Federal, State and local):** is automatically generated each night by a scheduled task for tax liabilities that are due within a date range that includes the all previous dates through the next two business days. It is also generated late afternoon each day by the Tax Manager to double check that all payments have been made appropriately. This process ensures that there are no payments outstanding for previous pay periods.

      The report is utilized to select clients to include in the EFTPS file and submitted electronically. The Tax Manager will compare the totals of the EFTPS file with the Due Date Report to ensure that the file is complete and accurate. The Finance Team will use the EFTPS software to confirm the receipt of the submitted payments and then export that data and import it into Evolution to update the database and indicate the payments were made.

      The report is also utilized to select clients to generate an ACH file or checks to send to the appropriate taxing agency for state and local taxes. The Tax Manager generates the ACH file and submits it to Fifth Third Bank. The Tax Manager will print the checks and then compare the total of the checks to the Due Date Report to ensure that all the required tax payments have been created. The Tax Manager verifies the amounts on the tax checks and the return or coupon, submits either by mail or online to the taxing agency's website directly.

      ✦ **Daily Funds Reconciliation Report:** the Vice President of Payroll Operations compares the payroll amounts transmitted in the banking file to the balance on hand in the bank account reconciliation for each client, any exceptions are reviewed for appropriateness and resolved.

      ✦ **Balancing Report:** shows the difference in the taxes calculated and taxes collected for each client, any differences are researched and resolved. This is reviewed weekly by the Tax

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Team personnel and typically adjustments are generated at quarter end to correct any of the issues. Employee differences are sent to the CSRs to correct with the next payroll in that quarter.

➤ **Tax Payment Balance Report:** compares the cash balance and outstanding/pending tax liabilities for each client and is reviewed weekly by the Tax Manager and used in the daily bank reconciliation process by the Finance Analyst.

The above reports are reviewed by the Tax Manager and appropriate action taken according to the data on the reports every day. The Finance Department also runs a Liability Due Report showing all unpaid liabilities as of run date to verify that all liabilities have been paid through the system.

The quarterly and annual return process has several phases to ensure the accuracy, completeness and timeliness of the returns using the following procedures:

➤ A master quarterly control is created to ensure all quarterly processes are completed.
➤ Checklists are prepared by taxing authority and client. The lists are utilized to ensure that all monthly, quarterly and annual tax returns are filed, even if no payments were made.
➤ Quarterly all companies are subjected to a "preprocess" function, which tests all tax liabilities against calculated taxes for the quarter. A payroll is automatically created in the system to correct for these discrepancies – such as over/under collection of state unemployment insurance (SUI) due to a rate change during the quarter.

➤ The quarterly/annual checklist is utilized for assuring that all returns are included in the priority mailing to the taxing authorities. For returns sent electronically, the clients contained in the file are compared to the clients listed on the quarterly audit worksheet.

During the new client implementation process, client specific tax rates, such as state unemployment, are entered into the Evolution payroll software based on client provided information. Clients are required to provide unemployment tax rates during the implementation process and to provide any changes to those rates on an ongoing basis since taxing authorities notify clients, not BASIC, when rates change. BASIC proactively requests rates, but rely on the client to provide them timely.

BASIC contracts the maintenance of the source code and tax tables in the Evolution system to iSystems. BASIC maintains membership in a payroll industry trade association that keeps their members up to date on tax related issues.   In addition, BASIC maintains a subscription with BNA, a company specializing in payroll compliance, which provides an electronic library of research information. The Vice President of Operations and the Tax Team personnel receive weekly emails regarding the latest tax changes and disseminate them to all employees.

ACH Processing

Automated Clearing House (ACH) files are created at the end of each day after all payroll processing is complete. The ACH files collect billing, taxes, direct deposit and trust account funds from each client that has processed that day. BASIC Payroll Plus and its clients contract with Fifth Third Bank to perform

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the preparation and transmission of ACH entries, subject to the National Automated Clearing House Association (NACHA) rules.

During the new client implementation process, all clients must sign Payroll Services Agreement and Direct Debit Authorization which authorizes BASIC Payroll Plus to electronically debit the client's bank account(s) for payroll transactions. BASIC has also designed a Direct Deposit Authorization form for the use of its clients' employees. The form gives authorization for the deposit of credit transactions to accounts listed on the form. It also gives permission to withdraw any credits mistakenly sent by debiting the same account. Clients are advised to retain copies of these forms in the employee's personnel file and fax or mail copies to BASIC. Clients are trained to receive voided checks from the employee to verify the transit and account number of the account receiving the payroll funds. If the client is a Remote Input client, they are trained as to the proper setup of the direct deposit accounts. Also during the new client implementation process, a determination is made for the maximum amount of direct deposit impound for each client. This amount is input into Evolution and is monitored with each payroll or ACH file processing.

Evolution has automated ACH limit checking routines that compare each payroll process in the ACH file with predetermined client specific limits. If the limits are exceeded, Evolution warns the Vice President of Payroll Operations during the file creation. The Vice President of Payroll Operations reviews the exceptions and determines the best course of action which includes; approve the payroll process, permanent increase in the limit or reject the payroll process and require prefunding by the client. The decision is documented on the Pre-processing ACH Warnings Log. As part of the Executive Team's ongoing risk management strategy, the risk associated with certain clients may necessitate more stringent funds transfer procedures. This is determined by the amount and the number of NSF payrolls and is controlled by the Credit Policy.

A Processed Payroll Report is generated in Evolution that lists all the processed payrolls for the day. Depending on staffing and availability, the Vice President of Payroll Operations, Tax Manager or Payroll Operations Manager functions as the ACH Coordinator who uses the Cash Management module in Evolution to generate the ACH file. The Processed Payrolls Report is then compared to the number of companies on the Cash Management Module who are going to have their ACH processed to verify that all clients that processed during the course of the day are properly included in the ACH file. The ACH Coordinator reviews the other entries in the Evolution ACH queue for unusual items, such as a manual ACH transaction that would not be on the Processed Payrolls Report, but should be included with that day's ACH transmission. Once the ACH Coordinator completes the client selection process and reviews the ACH file, the ACH Coordinator logs into Fifth Third Bank's secure website using a unique user ID and password to initiate the upload process. The ACH Coordinator enters the totals for each file to be submitted to Fifth Third Bank, receives a confirmation number from Fifth Third Bank which is communicated along with the total amounts for each batch that is to be sent to another member of the Payroll Management Team. The second Payroll Management Team member will independently create the ACH files, check the totals and submit the information to Fifth Third Bank via a unique log-in to the bank's secure website. The second Payroll Management Team member will then email a confirmation to the ACH Coordinator for verification once the process has been completed.   Fifth Third Bank warehouses and sends the NACHA transmissions to the appropriate banks on the clients' behalf.

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The Daily Funds Reconciliation Report (DFRR) is automatically run each night and then reviewed the next morning by the Vice President of Payroll Operations and/or the Tax Manager for any exceptions from the previous day's payroll processing and ACH files.   This report compares the payroll amounts transmitted in the banking file to the balance on hand in the bank account reconciliation for each client. Once completed, the Vice President of Payroll Operations or the Tax Manager signs off on the report that it has been reviewed and reconciled and it is saved electronically.

The Fifth Third Bank also generates a daily Returns and Notifications of Changes report. The information is accessed through the Fifth Third Bank's secure website daily by the Vice President of Payroll Operations or an applicable staff member. Direct deposit changes are distributed to the assigned CSR to contact the client and correct the information. The CSR contacts the client if any monies are returned. The returns may be caused by an employee closing an account and failing to notify the payroll contact or by invalid routing or account numbers. The CSR or a member of the Management Team may contact the client when a notification of a return due to insufficient funds is received. After the initial phone call, if applicable, the wiring instructions are faxed to the client.   When advised that the funds are available, if the client is not required to wire the funds, a manual ACH will be created to sweep the money from the clients account. The tax liabilities are marked NSF and the client account is placed on high credit hold until BASIC is notified by the Fifth Third Bank of receipt of the wire transfer or the re-sweep.

Finance and Administration

All payroll transaction funds are collected via Automated Clearing House (ACH). Separate withdrawals are sent to collect billing, tax, direct deposit and netpay funds from the client. Billing transactions post to a separate billing account. Tax and netpay (trust) funds are maintained in separate accounts. Clients who utilize the netpay service are debited for the full amount of net payroll and then the individual net payroll checks are drawn on BASIC's netpay account. For clients that choose to be a full service tax client, funds are impounded for taxes withheld and employer taxes collected each pay period and then are remitted as they become due

Formalized procedures are used to reconcile BASIC bank accounts. All bank accounts are reconciled to the bank balance by the Finance Department personnel. The Finance Department personnel do not have any other payroll processing responsibilities and are independent of the payroll processing operation. Furthermore, the Finance Department personnel have limited access in Evolution to only perform the bank reconciliation process. For example, the Finance Department personnel do not have the access to initiate, process or approve payroll or tax transactions in Evolution. The tax and netpay (trust) fund accounts are reconciled daily. A combination of Evolution reports and Excel spreadsheets are used to facilitate the reconciliation process. All transactions are either imported or manually cleared in Evolution and the ending balance is reconciled to the bank balance using the Cleared Report from Evolution and the daily bank balance report. Various audits are performed to validate all tax, direct deposit, billing and client funds have been collected and paid accurately. The Vice President of Finance reviews the bank reconciliations on at least a quarterly basis.

BASIC utilizes the Positive Pay service from Fifth Third Bank with its netpay (trust) account. Each day a file containing Payee, Amount, Serial Number, and Check date is uploaded to the bank. Each item that is presented on this account is validated by bank with the daily files and BASIC is notified of any exceptions at which time can be Approved or Denied.

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Information Technology and Systems Security

BASIC provides technological solutions to its clients and understands the critical and sensitive nature of the data transmitted on a daily basis. Physical access to computer equipment and storage media has been restricted to properly authorized individuals. Current technology is employed to ensure that data is secure and that appropriate access to information is given only to authorized users. Group policy is utilized to tighten security. For some examples, employees cannot write to Thumb drives to help with DLP concerns. Software restriction policies stop users from running programs other than approved applications on their workstations.   With few exceptions, network servers with file shares use file screening to prevent any executable files from even being saved in the share.

Access to the Evolution payroll software is restricted based on job function. The IT Manager implements the Evolution updates; the process is coordinated by the Vice President of Payroll Operations. The network and operating system updates are managed by BASIC's internal IT Team. Procedures are in place to review, test, approve and properly implement the software vendor supplied changes to existing software.

BASIC is a payroll service bureau. As such, the critical computer related tasks consist of the following:

- collecting and processing client company payroll data
- creating electronic banking transactions to:
    - collect funds from client company accounts
    - make direct deposit payments into client employee accounts
    - make payments to federal, state and local tax collection agencies
    - make payments to designated third parties, including BASIC
- print checks and direct deposit vouchers
- print and/or email reports

Description of Computerized Information Systems

BASIC's processing network is comprised 2 ESX hosts – PowerEdge 2950 Dell Servers, using an MD3000i SAN, with an MD1000 expansion unit. There are 14 servers on the SAN, but the payroll servers are separate. The first Middle Tier is on a Dell PowerEdge 1900, which is located in the Portage primary server room. The Evolution database server and the second Middle Tier server are on Dell PowerEdge 2970s and located in the second Portage server room.

As noted previously, Evolution is the payroll software used by BASIC. The Evolution application resides on a Firebird database server and is supported by the Linux operating system. Firebird is an open source Relational Database Management System (RDBMS). Firebird offers most of the ANSI SQL Standard suite of functions and is supported by the Linux operating system. The status of the application server and database are monitored on a frequent and regular basis to ensure availability and the integrity of customer information. The Vice President of Payroll Operations and the IT Team monitor the network system performance, review security reports, log problems and resolve processing interruptions on a daily basis.

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An Intrusion Prevention System is in place on the firewall that helps to block the access of an intruder. There is no file sharing on for the Evolution database server, however, access is limited to SSH or Putty Sessions. The firewall uses stateful inspection to help identify and block attempted intrusions. Unauthorized activity is reviewed regularly and appropriate actions are taken. The detection definitions are updated at least weekly or when new definitions become available. The firewall system is configured to deny any type of network connection that is not explicitly authorized by a firewall rule. Network address translation (NAT) is enabled on the firewall to translate internally routable IP addresses. Remote connections to the production network are secured either with a secure VPN, or using SSL with RDP traffic on non-traditional RDP ports.   Such connections have access based on a business need and are almost exclusively restricted to Executives and the core IT Team. Administrative access within the firewall system is restricted to the IT Team only.

General Computer Controls

Building and Office Access

BASIC has multiple office locations; the headquarters, HR services, HR benefits services, and server rooms are located in Portage, MI and BASIC Payroll Plus operations and a server room are located in Grand Rapids, MI. Both premises are secured from unauthorized personnel or visitors through exterior and interior doors to the offices. Both office spaces are protected by an electronic security system. Monitoring is outsourced to a third party provider that has staff available 24 hours a day.

The office buildings are secured from unauthorized personnel during non-business hours by key locks or proximity access controls. Certain office spaces are also secured by a key lock or proximity access controls and access is based on job responsibilities. Personnel are assigned a key FOB to access the office buildings or spaces and a four-digit security code to de-activate the alarm system. Most employees are also restricted to access the building and/or office spaces during normal working hours. When an employee is terminated the key and FOB are retrieved and the alarm code is deactivated during the normal out-processing procedures and documented on a checklist.

Both office spaces are divided into several functional areas; operations, tax filing, implementation, pack out and the printer and server rooms. All visitors have to be screened and granted access into the office and are escorted by BASIC's personnel during their visit.

The three server rooms (two in Portage and one in Grand Rapids) are kept locked and secured by a proximity access control reader or four digit mechanical push button. Only authorized employees, IT Team members and Executives, have access to the server equipment.

Physical Access and Environmental Protection of Server Room

The computer systems are located in restricted areas. The doors to the server rooms have key fob electronic locks or four digit push button locks and only authorized personnel have access, which includes select members of the IT staff and Executives. The access is changed with the same procedures as noted above for terminated employees with access.

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The server rooms are protected by the following environmental control systems:
- Fire alarm, after hours off-site monitoring
- Halotron hand-held fire extinguisher
- Temperature control device with an air conditioner
- Temperature monitoring device, 24x7 off-site monitoring
- Uninterruptible Power Supply (UPS) (battery backup)
- Natural gas powered generator with automatic switch, Portage office
- Portable gas powered generator, Grand Rapids office

The Grand Rapid's UPS consists of a Tripplite battery backup system. In the event of an electrical failure, the battery-powered electrical supply system provides approximately 15 minutes of power, which allows adequate time for the computer systems to be shut down to protect against the loss of data. The Grand Rapid's office has a portable gasoline powered Husky 5,000 watts generator that can be deployed to supply emergency power to the servers, limited workstations and printers. The payroll servers are located in the Portage server room, where the UPS system sustains the servers until the natural gas powered Cummins 100 kW generator powers up within 30 seconds after loss of AC utility power. The generator is covered under a maintenance plan and powers up weekly in a self-test mode. In the event of temperatures in excess of the threshold amounts in the Portage server rooms, appropriate personnel are alerted.

Logical Access

Access to resource and data are granted to individuals based on their job responsibilities. An approved request is required for a new user or a change to existing user access. The IT Manager serves as the network security administrator and is responsible for ensuring adherence to the IT Policy, which addresses logical access control procedures. User accounts and access rights are managed using Active Directory (AD) and the Primary Domain Controller employing the Kerberos network authentication protocol to authenticate both the client and the network and protect against the possibility of unauthorized users impersonating a server to enter the network.

Unique user IDs and passwords are assigned to each individual user. Password rules are established according to BASIC's IT Policy, which requires a minimum length of seven characters, with the extra complexity for AD passwords enabled. All user passwords are systematically required to be changed at least every 45 days. The network administrator sets the user's initial password and upon initial login, the user is required to change his or her password. User accounts are locked out after five failed login attempts for 30 minutes.

Individual access capabilities for the network are removed promptly upon IT being notified of the termination of employment or change of responsibilities. System security access levels are reviewed regularly by the Management Team to ensure individual access rights are appropriate based on job information. The IT Team strives to err on the side of security, and then often has to open up access to something for a limited time for a particular business need. AD groups are set up to assist with this role based security on the network.

In Evolution, each user ID can be set up with specific permissions to limit a user's access to only the windows, buttons, functions and data that they need for performing their jobs. Before displaying any

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window, Evolution checks access rights of the user. In addition, Evolution tracks the history of the changes made to most data fields. This history allows a review of who made changes to the data and when they were made. Finally, Evolution stores all security information in protected files in the main database instead of in the application or the user's workstation. The Vice President of Operations manages the security administration for the Evolution payroll software.

The Evolution software maintains a client database. The database is only accessible through the software application and is protected from unauthorized access. Evolution uses Firebird, an open source relational DB engine as its database back end. The design of Evolution is such that the client software never communicates directly with the database server. In addition, Evolution uses a custom SQL parser to limit user access to protected information. This information includes pay rates, salary amounts, clients, companies, divisions, branches, departments, and teams, etc. BASIC has configured passwords within the Evolution system to be a minimum of eight characters and contain numeric, lowercase, uppercase, and alpha / symbols characters and required to change every 90 days.

Clients who utilize the Remote option enter their own payroll information by logging into BASIC's servers remotely using individually assigned user IDs and passwords. Safeguarding controls are in place to ensure that only authorized users gain access to their specific company payroll data. BASIC uses the security role features of Evolution to allow authorized client users to gain access to only their specific company payroll data. The client does not have the capability to access or modify the username, password or open any databases not assigned to them. The client connection to Evolution is secured by 128-bit Blowfish encryption.

Software Change Management

The Tax Manager is responsible for coordinating all software changes. Upon receipt of updates to the Evolution software package, the Payroll Management Team receives an email detailing the changes included in the software update. Once the IT Team receives an approval from the Tax Manager, the update is scheduled and installed. If there are any concerns about the potential impact of the software update, it will initially be installed on a test server and tested prior to installing on the production servers. By the default backup schedule, backups of files are made prior to installing updates to software packages.   Major upgrades are always done on the test environment at least a few days prior to the planned production upgrade, to allow the IT Team to become familiar with the upgrade process and to allow the Operations Team adequate time to test the upgraded system before the upgrade is applied to the production environment.

The Vice President of Payroll is responsible for approving the implementation of all Windows and Linux operating system changes and patches involving the payroll system. Upon receipt of notification of the updates, the Vice President of Payroll coordinates with the IT Manager regarding the changes included in the update. Once the Vice President of Payroll approves the implementation of the updates or patches based on the recommendations from the IT Team, the update is installed. If there are any concerns about the potential impact of the system update, it will initially be installed on the test system or on a cloned virtual computer and tested prior to installing on the servers. Bare metal image style backups of the entire system drive are made prior to installing updates to the operating systems.   Data backups are made prior to any upgrades to the Linux DB server.

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Information Safeguards

BASIC has multiple backup processes performed daily to ensure data is retained and backed-up completely. The Evolution system and client databases are backed up using two different processes and at three separate locations. Asynchronous Data Replication (ADR) is used for sending real-time data changes to the offsite sync server, hosted by Asure Software. Also, using a crontab scheduled script, data is sent securely to a remote server each night. The Vice President of Payroll Operations and the Tax Manager monitor the success or failure of the backup processes each morning as part of their daily routine. In the event of corruption, the last 7 days of daily backups are available to restore client data, as well as weekly and monthly full image backups. BASIC also employs two Quantum DXi deduplication appliances, one in each office. The Portage office is the primary backup media and then replicated to the Grand Rapids office server.

Virus protection software is installed and auto-updated regularly by Trend Micro, and the Iprism proxy server. Users are trained with knowbe4.com training to not open email from unknown/foreign sources, perform downloads from the internet that are non-business related, or install any applications or software without permission, and in fact they would not be able to install applications or software if they wanted to with restricted user rights, and controls in place to prevent that.

Payroll backup processes are discussed below in more detail.

Evolution's Asynchronous Data Replication (ADR)

> BASIC utilizes the ADR software, provided by Asure Software, to continuously replicate the system and client databases to servers at an off-site location provided by Asure Software. The replication process is nearly instantaneous and occurs every time a file on the database has been changed.

Payroll File Server Backup

> The File Server, which contains all the company and client files, such as Microsoft Word and Excel files, PDFs, etc, is automatically backed up nightly via XXCOPY, keeping an offsite copy in synch with the backup server in Grand Rapids. Also, the main and backup servers hosting the client documents have previous versions turned on with at least a week or more of older versions of files maintained.

> In addition to the XXCOPY nightly sync, the full image of the File Server, is backed up weekly using VMPro software to the DXI deduplication appliance in Portage, where it also synchs up to the mirrored appliance in the Grand Rapids office.

Payroll Database Backups

> In addition to the ADR, which is replication, and will not protect against corruption or undesired mistakes and changes in the database, since those changes would replicate to the hot site also, BASIC also nightly uses a script to utilize all processors on the Linux DB server and back up all clients and system files of the Firebird database. The backup is available on the payroll server

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itself for 7 days, and then also backed up in weekly full image backups of the Payroll DB server to the DXI appliance in Portage, which synchs up to the one in Grand Rapids.

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Complementary Subservice Organization Controls

BASIC's controls related to the payroll processing system cover only a portion of overall internal control for each user entity of BASIC. It is not feasible for the control objectives related to payroll processing to be achieved solely by BASIC. Therefore, each user entity's internal control over financial reporting must be evaluated in conjunction with BASIC's controls described in Section IV of this report, taking into account the related complementary subservice organization controls (CSOCs) expected to be implemented at the subservice organization as described below.

Complementary Subservice Organization Controls (CSOCs)	Related Control Objectives
1. Asure Software is responsible for maintaining logical security over the servers and other hardware devices upon which the respective payroll application and data are hosted.	CO 4
2. Asure Software is responsible for notifying BASIC of any security incidents related to security over the servers and other hardware devices upon which the payroll application and data are hosted.	CO 4
3. Asure Software is responsible for maintaining physical security over the servers and other hardware devices used to host the Evolution backups.	CO 3
4. Asure Software is responsible for maintaining the tax table information and application logic in the respective payroll applications used for calculating payroll and related taxes to be compliant with all federal, state and local laws and regulations.	COs 7-13

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Complementary User Entity Controls

Processing of transactions for clients performed by BASIC and the control policies and procedures of BASIC cover only a portion of the overall internal control structure of each user entity of BASIC. It is not feasible for the control objectives related to the payroll processing to be achieved solely by BASIC. Therefore, each user entity's internal control over financial reporting should be evaluated in conjunction with BASIC's controls and procedures described in Section IV of this report, taking into account the related complementary user entity controls identified below.   In order for user entities to rely on the controls reported herein, each user entity must evaluate its own internal control to determine whether the identified complementary user entity controls have been implemented and are operating effectively.

Complementary User Entity Controls	Related Control Objective
Clients are responsible for ensuring that payroll information provided to BASIC is complete and accurate and provided on a timely basis.	COs 7-13
Clients are responsible for ensuring that service agreements are signed by authorized client personnel and provided to BASIC.	CO 7
Clients are responsible for reviewing the completed payroll information after the implementation/setup process is completed and informing BASIC of any errors or discrepancies in a timely manner.	CO 7
Clients are responsible for ensuring that only authorized and properly trained personnel are allowed logical access to BASIC systems.	COs 4, 7-13
Clients are responsible for Immediately notifying BASIC of any actual or suspected information security breaches, including compromised user accounts.	COs 4, 7-13
Clients are responsible for review of the annually prepared payroll processing schedule and notifying BASIC of any changes in a timely manner.	CO 8
Clients are responsible for review of error messages that result from entering payroll data, addressing errors and resolution in a timely manner.	COs 7-13

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Complementary User Entity Controls	Related Control Objective
Clients are responsible for submitting payroll data in accordance with the mutually agreed upon schedule.	CO 8
Clients are responsible for reconciling bank accounts used for payroll processing completely, accurately and on a timely basis.	CO 14
Clients are responsible for submitting all relevant correspondence with tax agencies to BASIC promptly.	CO 12

The fact that BASIC is an entity separate from its clients provides a certain amount of inherent segregation of functions. BASIC's employees are not authorized to initiate transactions or modify client files except through normal production procedures.

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Information Provided by the Independent Service Auditor

This report is intended to provide users of BASIC's activities with information about controls at BASIC that may affect the processing of user organizations' transactions and also to provide users with information about the controls that implemented for payroll processing. This report, when combined with an understanding and assessment of the internal controls at user organizations, is intended to assist the user auditor in (1) planning the audit of the user's financial statements and in (2) understanding control risk for assertions in the user's financial statements that may be affected by controls at BASIC.

Our examination was restricted to the control objectives and the related control procedures specified in Section IV by BASIC's management and was not extended to procedures described elsewhere in this report but not listed, or to procedures that may be in effect at the user organization. It is each user entity and its independent auditor's responsibility to evaluate this information in relation to the controls in place at each user organization. If certain complementary controls are not in place at the user organization, BASIC's controls may not compensate for such weaknesses.

For tests of control requiring the use of Information Produced by the Entity (IPE), procedures were performed to assess the reliability of the information, including completeness and accuracy of the data or report, to determine whether the information can be relied upon in the examination procedures. This includes IPE produced by BASIC and provided to user entities (if relevant and defined as part of the output control objectives), IPS used by BASIC management in performance of controls, and IPE used in the performance of our examination procedures. Based on the nature of the IPE, a combination of the following procedures were performed to address the completeness and accuracy of the data or reports used: 1) inspect source documentation relating to the IPE, 2) inspect the parameters used to generate the IPE, 3) agree data between the IPE and the source, and/or 4) inspect the IPE for anomalous gaps in sequence or timing.

BASIC's internal control represents the collective effect of various factors on establishing or enhancing the effectiveness of the controls specified by BASIC. In planning the nature, timing, and extent of our testing of the controls to achieve the control objectives specified by BASIC, we considered aspects of BASIC's control environment, risk assessment process, monitoring activities, and information and communications.

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The following table clarifies certain terms used in this section to describe the nature of the tests performed:

Test	Description
Inquiry	Inquiry of appropriate personnel and corroboration with management
Observation	Observation of the application, performance, or existence of the control
Inspection	Inspection of documents and reports indicating performance of the control
Reperformance	Reperformance of the control activity

In addition, as required by paragraph .35 of AT-C section 205, Examination Engagements (AICPA, Professional Standards), and paragraph .30 of AT-C section 320, when using information produced (or provided) by the service organization, we evaluated whether the information was sufficiently reliable for our purposes by obtaining evidence about the accuracy and completeness of such information and evaluating whether the information was sufficiently precise and detailed for our purposes.

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BASIC's Control Objectives and Related Controls and Independent Service Auditor's Tests of Controls and Results

Control Objective #1:   Controls provide reasonable assurance that management provides planning and oversight of the organization's objectives.

Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
1.1	The organizational structure provides segregation of duties between operations, tax, accounting and operating systems maintenance.	Corroboratively inquired with management to determine that BASIC's key functions within its business operations have been segregated between personnel. Inspected the organization chart and job descriptions to validate the segregation of key duties.	No exceptions noted. No exceptions noted.
1.2	Responsibilities over BASIC's business operations have been segregated into functional areas in order to enhance controls.	Corroboratively inquired with management to determine that operations have been segregated. Inspected the organization chart and job descriptions to validate the segregation of key functional responsibilities.	No exceptions noted. No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
1.3	Management has a formal Vendor Management Policy and program to monitor key vendors.	Corroboratively inquired with management to determine that the Management Team has a formal Vendor Management program to monitor key vendors. Inspected the Vendor Management policy and supporting compliance forms and checklists.	No exceptions noted. No exceptions noted.
1.4	The President and COO reviews financial statements compared to the prior year and budget on a monthly basis.	Corroboratively inquired with management to determine that management reviews financial information. For a selection of months, inspected the financial statements for evidence of review.	No exceptions noted. No exceptions noted.
1.5	The Executive Team reviews operational statistics and performance metrics compared to the prior year on a monthly basis.	Corroboratively inquired with management to determine that management reviews monthly productivity metrics. For a selection of months, inspected the meeting notes and the performance metrics for evidence of review.	No exceptions noted. No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
1.6	The Senior Executives meet with the Vice Presidents and managers on a monthly basis to discuss operational issues as well as risks the organization is facing, including financial and technological.	Corroboratively inquired with management to determine that the Management Team meets monthly to discuss risks.	No exceptions noted.
		For a selection of months, inspected the Management Meeting notes or resulting task lists.	No exceptions noted.
		Inspected the Risk Management policy.	No exceptions noted.

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Control Objective #2: Controls provide reasonable assurance that employment practices minimize exposure due to employee incidents and provide employees with adequate direction to perform their job responsibilities.

Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
2.1	The hiring and termination processes are formalized and documented by checklists and forms.	Corroboratively inquired with management to determine that BASIC's employee processes are formalized and documented. Inspected a selection of new employees' personnel files for evidence of the hiring and termination procedures.	No exceptions noted. No exceptions noted.
2.2	All candidates for employment undergo a series of interviews by at least three team members, including at least one manager. Background, criminal and credit checks are performed on all new employees based on their job position.	Corroboratively inquired with management to determine that BASIC's hiring process screens potential employees thoroughly. Inspected a selection of new employees' personnel files for evidence of the hiring procedures.	No exceptions noted. No exceptions noted.
2.3	The organization maintains an Employee Handbook that outlines key business practices employee responsibilities and human resource policies.	Corroboratively inquired with management to determine that the organization has an Employee Handbook. Inspected the Employee Handbook.	No exceptions noted. No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
2.4	New employees are required to sign-off a form indicating they have read and understand the Employee Handbook.	Corroboratively inquired with management to determine that all new employees must sign forms acknowledging their understanding of the content of the Employee Handbook.	No exceptions noted.
		Inspected a selection of new employees' personnel files for evidence of the signed forms.	No exceptions noted.
2.5	All employees sign the Nondisclosure Agreement prior to gaining access to client data.	Corroboratively inquired with management to determine that all new employees must sign a Nondisclosure Agreement as a condition of employment.	No exceptions noted.
		Inspected a selection of new employees' personnel files for evidence of the signed agreement.	No exceptions noted.
2.6	Job descriptions exist for all positions which provide employees with management's expectations and their responsibilities.	Corroboratively inquired with management to determine that job descriptions are utilized.	No exceptions noted.
		Inspected the job descriptions for all positions within the organization.	No exceptions noted.

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Control Objective #3:   Controls provide reasonable assurance that physical access to the office space and information systems, with respect to user entities' internal control over financial reporting, is restricted to authorized and appropriate individuals.

Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
3.1	Access to the office buildings and spaces are restricted to authorized personnel by electronic FOBs and key locks.	Corroboratively inquired of management to verify the office security and limited access.	No exceptions noted.
		Observed the security access points of the office building and office spaces.	No exceptions noted.
		Inspected the list of personnel with access by key or FOB and reviewed for appropriateness.	No exceptions noted.
3.2	A security system is utilized to restrict access to all unauthorized individuals to both office buildings/spaces after normal business hours. A third-party security company monitors access 24 hours a day, 365 days a year.	Corroboratively inquired of management to verify the office buildings have an electronic alarm system and appropriate employees are given the access code.	No exceptions noted.
		Inspected the office building, office spaces and security system devices.	No exceptions noted.
		Inspected a listing of personnel with alarm codes for appropriateness.	No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
3.3	The lobby or office suite entrance is monitored by the BASIC staff who screens visitors and if access is required, then visitors are escorted by BASIC personnel at all times.	Corroboratively inquired of management to verify access to the office building is limited to appropriate personnel. Observed the office space and procedures in place to limit access.	No exceptions noted. No exceptions noted.
3.4	All keys and FOBs are retrieved and alarm codes are deactivated during the termination of an employee with access as part of the normal out-processing procedures and documented on a checklist.	Corroboratively inquired of management to determine the policies for disabling terminated employee's access. Inspected a selection of terminated employees and verified their access was disabled and noted the termination checklist was completed.	No exceptions noted. No exceptions noted.
3.5	The servers and electronic equipment are kept locked in the server rooms at all times by a proximity access control electronic lock or four-digit mechanical push button lock with limited access based on job responsibilities.	Corroboratively inquired of management to determine the methods for restricting access to the Server Rooms. Inspected the locks on the Server Room doors and inspected the list of employees with access for appropriateness.	No exceptions noted. No exceptions noted.

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Control Objective #4:   Controls provide reasonable assurance that logical access to programs, data, within the payroll applications, and computer resources that may affect user entities' internal control over financial reporting is restricted to authorized and appropriate users and such users are restricted to performing authorized and appropriate actions. logical access to programs and data files is restricted to properly authorized individuals.

Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
4.1	Users are granted access to network and program resources, using a combination of active directory and application level access (individual tabs or screens) based on their job function and responsibilities.	Corroboratively inquired of management to verify that current user access to the network and application is based on job responsibilities. Inspected a selection of accounts with access to the network and the application and verified the appropriateness of the assigned logical access rights.	No exceptions noted. No exceptions noted.
4.2	User's access to the network domain and applications must be authorized by a Management Team member prior to granting access to the systems.	Corroboratively inquired with management to determine the procedures in place for authorizing access for new users. Inspected a selection of new employees for evidence of the proper authorization of a new user's access to the systems.	No exceptions noted. No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
4.3	The network domain will automatically prompt the users to change their passwords every 45 days. The passwords must be seven characters in length and meet complexity requirements.	Corroboratively inquired of management to verify the password policies established for the network domain. Inspected the group policy configuration for the network domain and confirmed the following password parameters: → Min password length: 7 characters → Max password age: 45 days → Complexity: Enabled	No exceptions noted. No exceptions noted.
4.4	User accounts are locked out after five failed attempts by the network domain and are locked out for 30 minutes.	Corroboratively inquired of management to determine the system parameters established for the network domain. Inspected the group policy configuration for the network domain to confirm user accounts are locked out after five failed attempts for 30 minutes.	No exceptions noted. No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
4.5	A user's access to the network domain and application are immediately disabled, upon termination of the user's employment using formalized procedures and documented on a checklist.	Corroboratively inquired with management to determine the procedures in place for removing terminated users from the system.	No exceptions noted.
		Inspected the list of network domain and application user accounts and verified no terminated employees retained access.	No exceptions noted.
		Inspected a selection of terminated employees and reviewed the termination checklists for evidence of the revocation of logical access.	No exceptions noted.
4.6	Administrator and superuser privileges to the production environment, operating systems and databases are restricted to active and authorized personnel.	Corroboratively inquired of management to determine the individuals with privileged accounts on the system.	No exceptions noted.
		Inspected system reports to verify privileged accounts are limited to active and authorized personnel.	No exceptions noted.
4.7	BASIC has implemented a firewall on the network to filter traffic and protect the network from external threats and vulnerabilities.	Corroboratively inquired with management to determine the procedures in place to protect the network from external threats and vulnerabilities.	No exceptions noted.
		Inspected the configuration and settings of the firewall.	No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
4.8	Administrative access to the firewall is limited to personnel with a business need: the IT Team and IT consultants.	Corroboratively inquired of management to determine the procedures in place for limiting access to BASIC's network. Inspected the firewall configuration for accounts with administrative level access which is limited to three accounts.	No exceptions noted. No exceptions noted.
4.9	Remote access to BASIC's network is secure, encrypted and limited to Executives and IT Team members and is controlled by VPN or SSL RDP.	Corroboratively inquired of management to determine the procedures in place for secure remote access to BASIC's network. Inspected the firewall VPN configuration and list of authorized users.	No exceptions noted. No exceptions noted.

4.10	BASIC has configured the Evolution software to automatically prompt the users to change their passwords every 90 days, meet complexity requirements and at least eight characters in length.	Corroboratively inquired of management to verify the password policies established for Evolution.
		
		Inspected the Evolution security settings and confirmed the following password parameters:
		  ◆ Min password length: eight characters
		  ◆ Max password age: 90 days
		  ◆ Complexity requirements enabled
			No exceptions noted.
			
			No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
4.11	BASIC has configured Evolution security roles to restrict remote clients' access to only their specific company payroll data. The clients' users are also restricted from various system and company level screens or fields.	Corroboratively inquired with management to determine how security settings in Evolution are used to restrict client users' access. Inspected client users access rights and the security settings for a client in Evolution and noted the applicable access restrictions.	No exceptions noted. No exceptions noted.

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Control Objective #5:	Controls provide reasonable assurance that changes to the existing system software and implementation of new software are authorized, tested, approved, properly implemented and documented to result in the complete, accurate, and timely processing and reporting of transactions relevant to user entities' internal control over financial reporting.

Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
5.1	BASIC Payroll Plus is notified of all Evolution software updates via email by the software vendor. The Tax Manager reviews the update notice and approves the update for implementation by the IT Manager.	Corroboratively inquired with management to determine procedures in place for performing software updates. Inspected a selection of the software updates performed for review and approval by management.	No exceptions noted. No exceptions noted.
5.2	The ability to implement software changes and version releases in Evolution is limited to authorized individuals.	Corroboratively inquired with management to determine procedures in place for limiting personnel with access to perform software updates. Inspected a selection of the security rights for limited personnel allowed to update Evolution.	No exceptions noted. No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
5.3	BASIC personnel do not have access to make changes to the Evolution source code.	Corroboratively inquired of management to verify BASIC does not have access to make source code changes to the Evolution application.	No exceptions noted.
		Inspected the Evolution License agreement to verify that the source code cannot be modified by BASIC.	No exceptions noted.

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Control Objective #6:   Controls provide reasonable assurance that data relevant to user entities' internal control over financial reporting is backed up regularly and is available for restoration in the event of processing errors or unexpected processing interruptions.

Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
6.1	The Evolution system and client database files are backed up to a separate local server daily using automated routines.	Corroboratively inquired of management to determine the process for backing up the databases.	No exceptions noted.
		Inspected the backup job routines to ensure production environments are included.	No exceptions noted.
		Inspected the schedule of backups performed for appropriateness.	No exceptions noted.
		For a selection of days, inspected evidence of the management's receipt of the confirmation emails indicating the successful completion of the jobs.	No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
6.2	The payroll data on the File Server is backed up nightly to the backup sever in the Grand Rapids office using an automated routine.	Corroboratively inquired of management to verify the payroll data is backed up offsite nightly.	No exceptions noted.
		Inspected the schedule of backups performed for appropriateness.	No exceptions noted.
		For a selection of days, inspected evidence of the management's receipt of the confirmation emails indicating the successful completion or backup logs for completion.	No exceptions noted.
6.3	All Evolution data files are replicated to secured servers at Asure Software with up to a 5 minute delay. This occurs 24 hours a day whenever the database is changed the files are replicated.	Corroboratively inquired of management to determine the Evolution data files are replicated to an off-site server hosted by Asure Software constantly.	No exceptions noted.
		Inspected the ADR software to verify proper configuration and that the replication process was current.	No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
6.4	The Evolution application server, database backup files and the File Server are backed up by VMPro application by full (weekly) images onto the Portage office Quantum DXi 4500 deduplication appliance. There is a second Quantum DXi 4500 deduplication appliance in the Grand Rapids office that serves as a duplicate to the Portage office appliance.	Corroboratively inquired of management to verify off-site backups are performed weekly of all critical data.	No exceptions noted.
		Inspected the VMPro configuration settings for the proper schedule and directories.	No exceptions noted.
		Inspected a selection of weeks for evidence of the successful completion of the job.	No exceptions noted.
6.5	The Vice President of Payroll Operations, Tax Manager or the IT Manager monitors the success of the backup procedures.	Corroboratively inquired of management to determine the process for verifying the success of the backup processes.	No exceptions noted.
		Inspected the backup email confirmations for a selection of days and weeks to determine the monitoring of the success of the backup processes.	No exceptions noted.

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Control Objective #7:   Controls provide reasonable assurance that implementation and setup of new clients is authorized by the client and completely and accurately processed and recorded in a timely manner.

Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
7.1	BASIC Payroll Plus utilizes standard new client checklists and customized forms to gather the payroll information for the new client. All tasks in the installation process including the second person reviews are documented on a checklist.	Corroboratively inquired with management to determine the procedures performed to setup or convert a new client.	No exceptions noted.
		Inspected a selection of new clients for evidence of the completed checklists and required documentation.	No exceptions noted.
7.2	New clients are subject to BASIC's client acceptance process which includes completion of the business credit check, "know your client" procedures, assess the client's credit risk and establish ACH dollar limit in relation to the requested services.	Corroboratively inquired with management to determine the procedures performed to review the new clients' credit risk and establish an ACH limit.	No exceptions noted.
		Inspected a selection of new clients for evidence of the completed new client acceptance procedures and ACH limits.	No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
7.3	All clients sign a Payroll Services Agreement with BASIC Payroll Plus.	Corroboratively inquired with management to determine the procedures performed to document the agreement of services provided to the new client.	No exceptions noted.
		Inspected a selection of new clients for evidence of the signed agreements.	No exceptions noted.
7.4	A second member of the Implementation Team reviews all company information and employee demographics in the payroll software for accuracy and completeness prior to the first payroll run.	Corroboratively inquired with management to determine the procedures performed to validate the new client data in the payroll software.	No exceptions noted.
		Inspected a selection of new clients for evidence of the second person's review and completion of the checklist.	No exceptions noted.
7.5	The Implementation Team performs a balancing process for quarter-to-date wages, year-to-date wages and tax liabilities prior to the first payroll run. The Balancing Report and Taxable Wage Reconciliation Report are generated and reviewed to verify the proper taxes for the prior wages. The prior wage data is reviewed by the Tax Team.	Corroboratively inquired with management to determine the procedures performed to validate the new client data in the payroll software.	No exceptions noted.
		Inspected a selection of new clients for evidence of the balancing procedures, the second person's review and completion of the checklist.	No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
7.6	The tax setup information in Evolution, such as filing frequency and id numbers, and year–to-date wages and tax liabilities are reviewed by the Tax Team.	Corroboratively inquired with management to determine the procedures performed to validate the tax setup information. Inspected a selection of new clients for evidence of the tax setup information by the Tax Team.	No exceptions noted. No exceptions noted.
7.7	A new client's first payroll run is reviewed by an Implementation Team member prior to distribution to the client and documented on a checklist.	Corroboratively inquired with management to determine the procedures performed to validate the first payroll process. Inspected a selection of new clients for evidence of the Implementation Team's review of the first payroll process.	No exceptions noted. No exceptions noted.

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Control Objective #8:   Controls provide reasonable assurance that processing is scheduled and performed appropriately in accordance with client specifications; deviations from the schedule are identified and resolved in a timely manner

Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
8.1	Payroll Scheduling Reports are generated weekly and utilized by the CSRs, which lists all clients scheduled to be processed, to manage their clients.	Corroboratively inquired with management to determine the procedures for verifying all scheduled payrolls were processed timely.	No exceptions noted.
		Inspected a selection of days for evidence of the CSR's utilization of the Scheduling Reports.	No exceptions noted.
8.2	Each CSR is responsible for monitoring their Scheduling Report and will contact any client that has not processed their scheduled payroll on or before the scheduled date.	Corroboratively inquired with management to determine the procedures for managing the processing schedule.	No exceptions noted.
		Observed, on a selection of dates, the CSRs managing their schedule and the resolution of exceptions.	No exceptions noted.
		Inspected a selection of days for evidence of the CSRs utilization of the Scheduling Reports and processing of client payrolls.	No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
8.3	The Payroll Operations Manager reviews the Schedule Report each day to verify which payrolls have not processed and coordinates with each CSR as to ensure timely processing.	Corroboratively inquired with management to determine the procedures for managing the processing schedule.	No exceptions noted.
		Inspected a selection of days for evidence of the Payroll Operations Manager review of the Schedule Report and the resolution of unprocessed payrolls.	No exceptions noted.
8.4	During the end of day procedures, the Payroll Operations Manager and the Vice President of Payroll Operations reviews the Processed Payrolls Report to verify the ACH file completeness and that the proper packages were assembled.	Corroboratively inquired with management to determine the procedures for managing the processing schedule.	No exceptions noted.
		Inspected a selection of days for evidence of the Payroll Operations Manager and the Vice President of Payroll Operations review of the Processed Payrolls Report and the resolution of unprocessed payrolls.	No exceptions noted.

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Control Objective #9:   Controls provide reasonable assurance that payroll data is received from authorized sources.

Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
9.1	Clients authenticate on BASIC's payroll software using Thin Client technology with individually assigned user IDs and passwords. BASIC manages the administration of user ids and passwords.	Corroboratively inquired with management to determine the procedures for setting up new clients' access to their payroll database by a unique user id and password. Inspected the application and noted the requirement of the user id and password to gain access to the company data.	No exceptions noted. No exceptions noted.

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Control Objective #10: Controls provide reasonable assurance that payroll data, transactions and maintenance items, are initially recorded completely and accurately.

Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
10.1	Daily audits are automatically generated to monitor various events and data elements within the clients' payroll database, such as bank account or routing number changes, pay rate changes, earning and deduction code changes, user security changes, etc. These reports are reviewed by the Vice President of Payroll Operations or Tax Manager for appropriateness and resolution.	Corroboratively inquired with management to determine the procedures for monitoring the payroll data for potential errors or unusual items. Inspected the audit reports for a selection of days for evidence of the review by a Management Team member.	No exceptions noted. No exceptions noted.

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Control Objective #11:   Controls provide reasonable assurance that payroll checks, direct deposit vouchers and reports are produced and distributed completely, accurately and in accordance with client specifications.

Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
11.1	Checks, vouchers and reports are generated in a secured area. Access is limited to authorized personnel.	Corroboratively inquired with management to determine the procedures for printing the checks, vouchers and reports.	No exceptions noted.
		Observed, on a selection of dates, the secured Pack Out room.	No exceptions noted.
		Inspected the secure Pack Out room access list for appropriateness.	No exceptions noted.
11.2	The Payroll Cover Letter and Delivery Instructions reports are generated with each client's payroll package to notify the Pack-Out Specialist of client specified distribution and delivery instructions. If special (one-time) instructions are received from the client, the CSR will communicate it to the Pack-Out Specialist prior to processing.	Corroboratively inquired with management to determine the procedures for printing the checks, vouchers and reports.	No exceptions noted.
		Observed, on a selection of dates, the process of printing checks, vouchers and reports.	No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
11.3	The Pack-Out Specialist monitors the status of the printers and resolves any paper jams or errors during printing. The Pack-Out Specialist will review the sequencing of checks or vouchers upon a printer error to ensure completeness. All unusable documents are destroyed.	Corroboratively inquired with management to determine the process in which the payroll output is assembled and packaged for delivery. Observed, on a selection of dates, the Packout Specialist assemble and package the payroll output.	No exceptions noted. No exceptions noted.
11.4	Checks, vouchers and reports are then assembled, sealed in an envelope for delivery, sorted according to delivery method. The Payroll Operations Manager or designated CSR reviews the packages for accuracy prior to distribution to the client.	Corroboratively inquired with management to determine the process in which the payroll package is reviewed prior to delivery. Observed, on a selection of dates, the Payroll Operations Manager review the payroll package for accuracy and completeness.	No exceptions noted. No exceptions noted.
11.5	BASIC has configured Evolution's VMR module to handle the electronic delivery of the processed payroll reports and vouchers. The password protected payroll reports are sent to the client specified email address and confidential information is also masked.	Corroboratively inquired with management to determine the process in which the payroll output is delivered electronically. Observed the VMR settings for a client that elected paperless payroll in Evolution and the history of the emailed reports for the testing period.	No exceptions noted. No exceptions noted.

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Control Objective #12:   Controls provide reasonable assurance that appropriate federal, state and local tax filings are complete, accurate and timely.

Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
12.1	The Tax Manager runs the Due Date Report on a daily basis to ensure that all tax filings for the selected filing period are complete, accurate and timely. The Due Date Report lists unpaid tax liabilities for a specified date. If the report reflects any payments due, they are made.	Corroboratively inquired with management to determine the process for verification of tax compliance for all clients. Inspected a selection of daily tax reports for evidence that the required payments were made by the due date. Inspected a selection of daily tax reports for evidence of the review by the Tax Manager.	No exceptions noted. No exceptions noted. No exceptions noted.
12.2	The Tax Manager generates the daily tax payments in Evolution for the Federal EFT debit file, state specific ACH files and printed checks. The Tax Manager reconciles the payments by each method with the totals per the Due Date Report to verify completeness and accuracy.	Corroboratively inquired with management to determine the process for payment of tax liabilities. Inspected a selection of daily tax payments for evidence of the reconciliation of the tax payments by type to the Due Date Report.	No exceptions noted. No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
12.3	The Tax Manager submits the daily tax payments using the EFTPS software or Evolution ACH module. The Tax Manager verifies the payments with the confirmations from the EFT providers or taxing agencies' website. The tax payment ACH file for state and local agencies is uploaded following the same two person process as other files.	Corroboratively inquired with management to determine the process for payment of tax liabilities. Inspected a selection of tax payments and agreed the payments to the EFTPS report, ACH Transaction Report, inclusion in the related confirmation from the EFT providers or taxing agencies' websites.	No exceptions noted. No exceptions noted.
12.4	The Tax Department runs several reports on a weekly basis to ensure that all tax filings for the selected filing period are complete, accurate and timely. ➥ **Balancing Report** shows the difference in the taxes calculated and taxes collected for each client. ➥ **Tax Payment Balance Report** compares the cash balance and outstanding/pending tax liabilities for each client.	Corroboratively inquired with management to determine the tax reports utilized to monitor the accuracy of the tax process. Inspected a selection of weeks for evidence of the Tax Manager's review of the reports for variances and resolution.	No exceptions noted. No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
12.5	A procedure checklist is utilized during the quarter end process to assist the Tax Manager personnel to track where they are in the process and allow them to delegate certain responsibilities. As each task is completed, it is signed off on by the person performing that task.	Corroboratively inquired with management to determine the quarter end and year end reporting procedures. Inspected a selection of quarterly checklists for evidence of the completion of the quarter end process.	No exceptions noted. No exceptions noted.
12.6	A master Quarterly List is created which lists all clients to ensure the quarterly processes are completed. The list is utilized to ensure that all monthly, quarterly and annual tax returns are filed, even if no payments were made. In addition, several other checklists are used to track consolidated clients, multi state clients, and non-tax filing clients.	Corroboratively inquired with management to determine the quarter end and year end reporting procedures. Inspected a selection of clients for evidence of the completion of the quarter ended March 31, 2017 Form 941, compliance with procedures and submission by the due date. Inspected the March 31, 2017 quarter end documentation for evidence of completion.	No exceptions noted. No exceptions noted. No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
12.7	Quarterly, all companies are subjected to a "preprocess" function, which tests all tax liabilities against calculated taxes for the quarter. A payroll is automatically created in the system to correct for these discrepancies – such as over/under collection of state unemployment insurance (SUI) due to a rate change during the quarter.	Corroboratively inquired with management to determine the quarter end and year end reporting procedures. Inspected the completion of the quarterly preprocessing for March 31, 2017. Inspected the March 31, 2017 quarter end documentation for evidence of completion.	No exceptions noted. No exceptions noted. No exceptions noted.
12.8	Quarterly and annual returns are created and are subjected to the review process to identify any balances due, overpayments, or unusual adjustments or items by the Tax Manager.	Corroboratively inquired with management to determine the quarter end and year end reporting procedures. Inspected a selection of clients for evidence of the completion of the quarter ended March 31, 2017 Form 941, compliance with procedures and submission by the due date. Inspected the March 31, 2017 quarter end documentation for evidence of completion.	No exceptions noted. No exceptions noted. No exceptions noted.

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Control Objective #13:   Controls provide reasonable assurance that the disbursement of direct deposit funds is authorized, complete and accurate.

Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
13.1	Clients sign the service agreement that authorizes BASIC to debit their bank account for the payroll transactions. Implementation Team personnel input the client provided bank account number and bank routing number into the client's database and it is reviewed by a 2nd person.	Corroboratively inquired with management to determine the process for client authorization of direct deposit. Inspected a selection of new clients for evidence of the executed authorization agreement. Inspected a selection of new clients for evidence of the 2nd person review process.	No exceptions noted. No exceptions noted. No exceptions noted.
13.2	New clients are evaluated and assigned an ACH dollar limit during the implementation process and Evolution compares those limits with actual amounts during the ACH file processing, any exceptions are reviewed by the Vice President of Operations for appropriateness.	Corroboratively inquired with management to determine the procedures for minimizing risk and establishing client specific limits. Inspected a selection of new clients for evidence of the established ACH limits. Inspected a selection of days for evidence of the review of the ACH limit exceptions.	No exceptions noted. No exceptions noted. No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
13.3	The ACH Coordinator selects clients based on check date, verifies the number of clients included in the ACH file with the number of payrolls actually processed during the day on the Processed Payrolls Report and reviews any unusual transactions.	Corroboratively inquired with management to determine the procedures to create and upload the ACH files. Inspected a selection of ACH file submissions for evidence of the verification process of the Processed Payrolls Report.	No exceptions noted. No exceptions noted.
13.4	The ACH Coordinator creates the ACH file and the ACH Transaction Report, logs into Fifth Third Bank's secure website by a unique user id, and password. Once authenticated, the ACH file control totals are entered and a confirmation number is provided by Fifth Third Bank. The ACH Coordinator emails the Payroll Management Team the control totals and confirmation number for each ACH file to be submitted.	Corroboratively inquired with management to determine the procedures to verify the uploaded ACH files. Inspected a selection of ACH file submissions for evidence of the ACH Coordinator's verification process with the bank and email to the Payroll Management Team. Reperformed the verification of the control totals of the ACH Transaction Report and the email to the Payroll Management Team.	No exceptions noted. No exceptions noted. No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
13.5	A second Payroll Management Team member independently creates the ACH file in Evolution, verifies the control totals with the ACH Coordinator's email, uploads the file to Fifth Third Bank's secure website and verifies control totals once the file is uploaded.	Corroboratively inquired with management to determine the procedures to confirm the submitted ACH files. Inspected a selection of ACH file submissions for evidence of the submission and verification of the ACH files by a second Payroll Management Team member.	No exceptions noted. No exceptions noted.
13.6	The Daily Funds Reconciliation Report is generated daily and any differences are reviewed by the Vice President of Payroll Operations.	Corroboratively inquired with management to determine the procedures to confirm the balancing of the ACH files. Inspected a selection of Daily Funds Reconciliation Reports for evidence of the verification procedures and review by a Payroll Management Team member.	No exceptions noted. No exceptions noted.

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Control Objective #14: Controls provide reasonable assurance that the client held funds are properly accounted for and the bank accounts are reconciled in a complete, accurate and timely manner.

Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
14.1	The direct deposit, tax impound, client (trust) and billing funds are maintained in separate bank accounts.	Corroboratively inquired of management to determine the utilization of multiple bank accounts for different transaction types.	No exceptions noted.
		Inspected bank statements to determine the client funds are maintained in separate bank accounts for each transaction type.	No exceptions noted.
14.2	The bank account reconciliations are performed by Finance Department personnel who have no other payroll processing access in Evolution or responsibilities to enhance segregation of duties.	Corroboratively inquired of management to determine the procedures for bank account reconciliation.	No exceptions noted.
		Inspected a selection of the daily bank reconciliations and noted Finance Department personnel performed the bank reconciliations during the testing period.	No exceptions noted.
		Inspected the Evolution Security Rights Report for evidence of limited access for Finance Personnel.	No exceptions noted.

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Ref #	Controls Specified by BASIC	HA's Tests of Controls	HA's Testing Results
14.3	The client funds and tax impound accounts are reconciled daily by a Financial Analyst.	Corroboratively inquired of management to determine the procedures for bank account reconciliation. Inspected a selection of daily bank reconciliations to determine the client funds and tax impound accounts were reconciled.	No exceptions noted. No exceptions noted.
14.4	The Financial Analysts reconciles each client's outstanding tax liabilities from Evolution to the tax impound bank account balance on a daily basis; any variances are researched and resolved timely.	Corroboratively inquired of management to determine the procedures for the reconciliation of tax liabilities and tax impound funds. Inspected a selection of daily tax liability reconciliations to determine the tax impound funds agreed to total tax liabilities and for evidence of the reconciliation performed.	No exceptions noted. No exceptions noted.