PAYPRO CORPORATION PAYROLL SYSTEM

SOC 1 REPORT ON CONTROLS
IMPLEMENTED AND
TESTS OF OPERATING EFFECTIVENESS

FOR THE PERIOD NOVEMBER 1, 2010 TO OCTOBER 31, 2011

450 Wireless Blvd. Hauppauge, N.Y. 11788
Phone: 631-777-1100 Fax: 631-777-1103
w w w . p a y p r o c o r p . c o m

J.H. COHN LLP
Accountants and Consultants since 1919

Paypro Corporation
Paypro Corporation Payroll System
For the period November 1, 2010 to October 31, 2011

Table of Contents

SECTION ONE – INDEPENDENT SERVICE AUDITOR'S REPORT

Independent Service Auditor's Report

To the Management of Paypro Corporation:

Scope

We have examined Paypro Corporation's ("Paypro") description of its system for processing transactions for user entities of its Paypro Corporation Payroll System (the "system") throughout the period November 1, 2010, to October 31, 2011 ("description") and the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description.

Paypro uses various subservice organizations including:

- MPay, Inc. for hosting payroll accounting and payroll processing software applications.
- Continuity Centers for data replication and backup services.

Paypro's control objectives and related controls, which are listed in Section Three of this report, include only the control objectives and related controls of Paypro and exclude the control objectives and related controls of these subservice organizations. Our examination did not extend to controls at the subservice organizations.

The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls contemplated in the design of Paypro's controls are suitably designed and operating effectively, along with related controls at Paypro. We have not evaluated the suitability of the design or the operating effectiveness of such complementary user entity controls.

Service organization's responsibilities

In Section Two of this report, Paypro 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. Paypro is responsible for preparing the description and for its 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, and designing, implementing and documenting controls to achieve the related control objectives stated in the description.

Service auditor's responsibilities

Our responsibility is to express an opinion on 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 our examination. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our examination to obtain reasonable assurance about whether, in all material respects, 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 November 1, 2010 to October 31, 2011.

An examination of a description of a service organization's system and the suitability of the design and operating effectiveness of its controls to achieve the related control objectives stated in the description involves performing procedures to obtain evidence about the fairness of the presentation of the description of the system and the suitability of the design and operating effectiveness of those controls to achieve the related control objectives stated in the description. Our procedures included 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. Our procedures also included testing the operating effectiveness of those controls that we consider necessary to provide reasonable assurance that the related control objectives stated in the description were achieved. An examination engagement of this type also includes evaluating the overall presentation of the description and the suitability of the control objectives stated therein, and the suitability of the criteria specified by the service organization and described in management's assertion in Section Two of this report. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Inherent limitations

Because of their nature, controls at a service organization may not prevent, or detect and correct, all errors or omissions 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 inadequate or fail.

Opinion

In our opinion, in all material respects, based on the criteria described in Paypro's assertion in Section Two of this report

a. the description fairly presents the system that was designed and implemented throughout the period November 1, 2010 to October 31, 2011.

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 November 1, 2010 to October 31, 2011 and user entities applied the complementary user entity controls contemplated in the design of Paypro's controls throughout the period November 1, 2010 to October 31, 2011.

c. the controls tested, which together with the complementary user entity controls referred to in the scope paragraph of this report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period November 1, 2010 to October 31, 2011.

Description of tests of controls

The specific controls tested and the nature, timing and results of those tests are listed in Section Three of this report.

Restricted use

This report and the description of tests of controls and results thereof in Section Three of this report are intended solely for the information and use of Paypro, user entities of Paypro's Payroll Service System during some or all of the period November 1, 2010 to October 31, 2011, and the independent auditors of such user entities, who 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 misstatements of user entities' financial statements. This report is not intended to be and should not be used by anyone other than these specified parties.

Information not covered by the Service Auditor's Report

The information in Section Four "Other Information Provided by Paypro Corporation" that describes management's response to exceptions identified by the service auditor in Section Three, subservice organizations and other Paypro products, is presented by the management of Paypro to provide additional information and is not part of Paypro's description the system made available to user entities throughout the period November 1, 2010 to October 31, 2011.

Information about management's response to exceptions identified by the service auditor in Section Three, subservice organizations and other Paypro products has not been subjected to the procedures applied in the examination of the description of the system and of the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description of the system.

J. H. Cohn LLP

December 6, 2011
Roseland, New Jersey

SECTION TWO – MANAGEMENT'S ASSERTION AND DESCRIPTION OF THE SYSTEM PROVIDED BY PAYPRO

1.   Management's Assertion

We have prepared the description of the Paypro Corporation ("Paypro" or the "Company") Payroll System (the "description") for user entities of the system during some or all of the period November 1, 2010 to October 31, 2011, and their user auditors who have a sufficient understanding to consider it, along with other information, including information about controls implemented by user entities of the system themselves, when assessing the risks of material misstatements of user entities' financial statements. We confirm, to the best of our knowledge and belief, that:

a. The description fairly presents the Paypro Corporation Payroll System (the "system") made available to user entities of the system during some or all of the period November 1, 2010 to October 31, 2011 for processing their transactions.

    Paypro uses certain subservice organizations including:
    - MPay, Inc., a subservice organization for hosting payroll accounting and payroll processing software applications.
    - Continuity Centers, a subservice organization for data replication and backup services.

    The description includes only control objectives and related controls of Paypro and excludes the control objectives and related controls of the subservice organizations. The criteria we used in making this assertion were that the description:

    i.   presents how the system made available to user entities of the system was designed and implemented to process relevant transactions, including, if applicable:

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

(3)   the related accounting records, supporting information and specific accounts that are used to initiate, authorize, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the reports and other information prepared for user entities.

(4)   how the system captures and addresses significant events and conditions, other than transactions.

(5)   the process used to prepare reports and other information for user entities.

(6)   specified control objectives and controls designed to achieve those objectives, including, as applicable, complementary user entity controls contemplated in the design of Paypro's controls.

(7)   other aspects of our control environment, risk assessment process, information and communication systems (including related business processes), control activities and monitoring controls that are relevant to processing and reporting transactions of user entities of the system.

ii.   does not omit or distort information relevant to the scope of 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 financial statement auditors, and may not, therefore, include every aspect of the system that each individual user entity of the system and its auditor may consider important in its own particular environment.

iii.   includes relevant details of changes to the system during the period covered by the description.

b. The controls related to the control objectives stated in the description were suitably designed and operated effectively throughout the period November 1, 2010 to October 31, 2011 to achieve those control objectives. The criteria we used in making this assertion were that:

i.   the risks that threaten the achievement of the control objectives stated in the description have been identified by management of Paypro.

    ii.   the controls identified in the description would, if operating as described, and user entities applied the complementary user entity controls contemplated in the design of Paypro's controls throughout the period November 1, 2010 to October 31, 2011 provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved; and

    iii.   the controls were consistently applied as designed and manual controls were applied by individuals who have the appropriate competence and authority.

2.   Scope of the Report

This report is a description of the controls over the Paypro Corporation Payroll System (the "system"). Other services provided by Paypro are not included within the scope of the description. The controls described in this report may be relevant to the internal controls of user entities. The report is organized to facilitate independent auditors of Paypro's user entities in planning their financial statement audits. This report was prepared in accordance with the guidance in the American Institute of Certified Public Accountants, *Statements on Standards for Attestation Engagements ("SSAE") No. 16, Reporting on Controls at a Service Organization.* This report applies only to the system provided by Paypro to user entities.

Paypro understands that user entities and their auditors will want to gain an understanding of the controls at their third-party payroll service organization. Paypro believes such organizations and their auditors will find that the description of the system and control objectives is useful for that purpose.

3.   Overview of Paypro

Paypro is a payroll, human resources ("HR") and time and attendance solution provider for middle market companies. The Company was founded in 1992, is located in Hauppauge, New York.. The Company also provides other payroll related services not included within the scope of the description.

Paypro is committed to providing the highest quality products and services in the payroll industry. The Company's primary objectives are to provide accurate payroll processing with comprehensive management reports, data integration and superior customer service. The Company concentrates on user entities that are classified as middle market companies. It is

PAYPRO
CORPORATION
"THE DIFFERENT SOLUTION"

Paypro's policy to invest on an ongoing basis in state-of-the-art equipment and highly trained personnel to meet the unique needs of user entities. The Company's attention to detail facilitates the accuracy, dependability and service that user entities demand. This description of the system focuses on the Paypro Corporation Payroll System.

4.   Overview of the Paypro Corporation Payroll System

The system provided to user entities includes the production of employee payroll checks, direct deposit vouchers, payroll related accounting records, management reports, tax payments and payroll tax returns for federal, state and local jurisdictions.

Summary of Description of Control Activities

Achievement of the control objectives for Paypro's services is accomplished by control activities in the following areas:

- Information Technology ("IT")
- Facilities and data security
- Payroll data input
- Implementation of new user entities
- Payroll tax withholding and payments
- Printed payroll checks
- Payroll check distribution and reporting
- Web-based portal

Control activities performed in the above areas are described in detail in this section in Part 6 "Description of Paypro's Control Activities."

5.   Relevant Aspects of the Control Environment, Risk Assessment, Monitoring and Information and Communication

Control Environment

Ultimate responsibility for the control environment rests with Paypro's owners, who provide oversight of Paypro's services through the Chief Operating Officer ("COO") and Senior Management. The owners and senior management recognize that the control environment has a pervasive influence on the organization's risk assessment, information and communications, control activities and monitoring and that the control environment they create and nurture influences the control consciousness of Paypro's employees. The control environment is enhanced by the Company's efforts to employ competent people with extensive industry experience relevant to their area of responsibility. Experience is coupled with an attitude of integrity, ethics and control consciousness that sets an expectation of respect for the trust that user entities place in Paypro. In order to achieve these goals, the Company has established appropriate controls that are reviewed and adapted as its business grows and changes. Standards of conduct are communicated to employees through the Personnel Guide provided to employees during hire and when updated. New hires are required to sign a statement that they have read and understand Paypro's policies and procedures as stated in the Personnel Guide.

Management Controls

Paypro has established management information and reporting structure to provide the COO and functional managers with critical control and performance measurements on a frequent and regular basis. Managers and functional teams that support Paypro's services are assigned specific responsibilities to achieve efficiency in processing and to reasonably assure proper segregation of duties.

Organization Structure

Paypro's organization is structured to reasonably assure the effectiveness of its controls by segregating the responsibilities for payroll processing and IT general controls. Senior Managers report directly to the COO and have extensive experience in their areas of expertise. Many managers have been with Paypro for several years. The organizational structure as it relates to the system includes the officers and managers as follows:
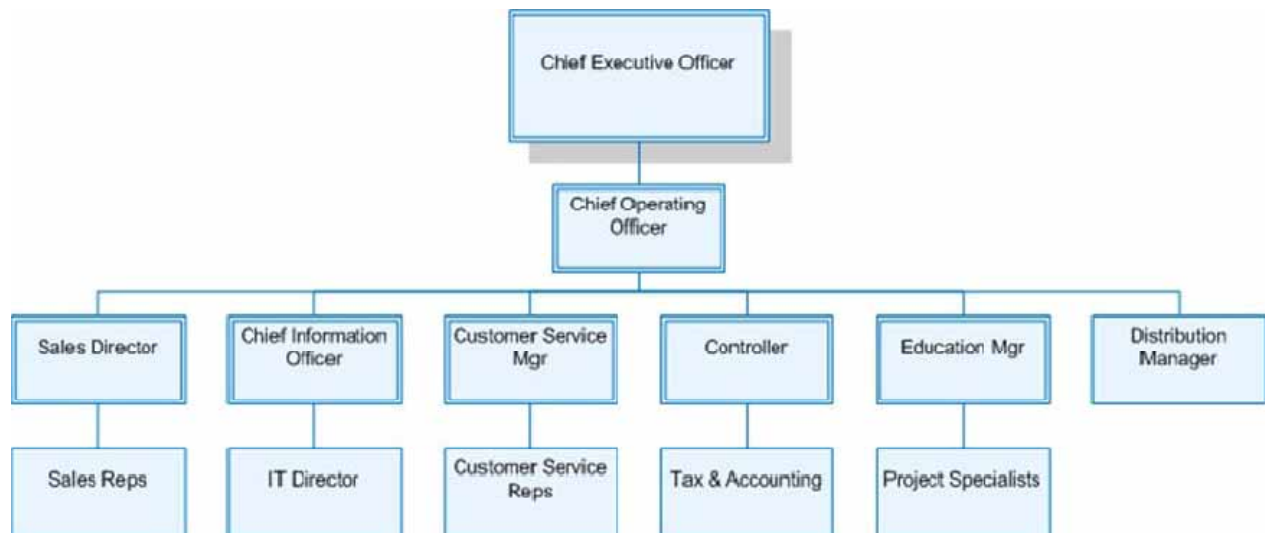
Human Resources Controls

Procedures have been established for hiring personnel, and senior management interviews all candidates for open positions. Background checks are conducted, and because of the confidential nature of the work performed, each new employee is required to sign a Confidentiality Agreement. New employees receive a copy of the Paypro Personnel Guide, which clearly delineates behavioral and ethical standards and the general policies of the Company.

Paypro strives to recruit the most qualified personnel available. The primary goal of the recruitment efforts is to optimize operating efficiency and user entity satisfaction. To reasonably assure that these objectives are met, the Company sets standards for each position, which are followed in filling vacancies or new positions within the Company. Each Paypro employee has an annual performance appraisal to measure performance against the standards established for their position. The main purpose of the evaluation is to provide the manager and employee a chance to review the employee's strengths and the areas in which improvement may be needed.

Training

Paypro is committed to training as an essential part of employee and user entity success. Employees receive supervised, on-the-job training to gain product knowledge, and enhance the technical knowledge and skills necessary to maintain the highest level of service excellence. The Company maintains operating procedures manuals designed to provide consistent guidelines to employees and user entities in the conduct of their daily responsibilities and processing requirements. The manuals and guidelines include:

- Procedures for processing payrolls, adjustments and prior period corrections
- Software Technical Information
- Operating Forms

Employees are provided with IT orientation upon hiring and periodic updates. Senior management encourages attendance at outside seminars and workshops, IT security training seminars and conferences annually. Paypro encourages employees to pursue job-related undergraduate and graduate degrees, designations, certifications and similar qualifications.

Risk Assessment

Paypro recognizes the importance of risk assessments. Management considers risk when control objectives are designed, when controls are implemented, and when the system is documented.

Monitoring

Paypro management recognizes that monitoring is a critical element of internal control over the system. To provide reasonable assurance that control objectives are achieved and operating effectively, the Company has established monitoring procedures at several levels. The COO and Chief Information Officer ("CIO") monitor operating activities, hardware, software, the network, data integrity, Internet usage and access security on an ongoing basis. Senior management receives periodic reports with key performance metrics, including the following:

- Daily Schedule Report
- Daily Open Payrolls
- Daily Payrolls Processed

The Company has implemented a variety of reports to monitor performance to identify and resolve control issues in a timely fashion including the following reports:

- User entities Tax Notices Summary
- Quarterly Client Satisfaction Survey
- New Client Implementation Status
- Deposit by Due Date Report
- System Liability Variance Report
- System Negative Liabilities Report

Logical access to the network and servers is monitored so that unauthorized access attempts and security breaches may be detected in a timely fashion. The IT Manager reviews the domain controller audit logs weekly.

Information and Communications

Internal Communications

Internal communications are conducted primarily via e-mail and through weekly staff meetings attended by appropriate senior management, managers and supervisory personnel. The purpose of these meetings is to discuss issues identified in the system and IT as well as review and improve quality in all operational functions. Attendees work on these issues until they are resolved.

Customer Communication

Communication with Paypro user entities is handled by the Customer Service, Educational Services and Tax Departments, which are staffed with trained personnel who use e-mail, telephone or fax to exchange information with user entities. User entities communicate payroll data and receive payroll reports via PC and web input. Access to the PC and web input systems requires a strong user identification ("ID") and password. The data exchanges are encrypted to reasonably assure confidentiality.

Client requests or problems are documented and assigned a documentation number which is tracked through Paypro's user entity satisfaction system. Managers review the inquiries, correspondence and or requests from user entities, evaluate the response time and periodically call user entities to reasonably assure user entity satisfaction.

User entities are given onsite training on relevant product and procedural information. A comprehensive manual with step by step instructions is provided to user entities and changes to the procedures are communicated to them by Paypro.

Standard Reports
With every payroll processed, user entities receive standard reports which include input worksheets, payroll registers, tax reports, check registers, direct deposit reports and monthly summaries.

Payroll Register
The payroll register provides current and or year-to-date payroll activity, including employee earnings, deductions, adjustments and net pay, presented in either employee or department order.

Payroll Tax Report
The payroll tax report provides a detailed breakdown of withholding taxes and employer taxes for the period as well as tax deposits to be made with their respective due dates.

Check Register
A listing of all checks, direct deposit vouchers and funds impounded for the period in number, department or alpha order.

Direct Deposit Report
A direct deposit report lists employees' net deposit amounts for the period. The report includes the banks and account numbers to which these amounts have been deposited.

Other Reports
Paypro offers a wide variety of additional reports to user entities providing selective information to meet their needs. In addition, user entities can request customized reports specific to their company. Each user entity is provided its own unique set of reports which automatically prints with each payroll.

6.   Description of Paypro's Control Activities

Information Technology General Controls

Paypro recognizes that IT general controls have a pervasive effect on the achievement of many other control objectives and are considered pervasive because many application controls rely on the effectiveness of IT.

Physical Security

During normal business hours, only Paypro employees and invited guests are allowed access to the office facilities. All visitors and guests are restricted to the reception area unless escorted by Company personnel, and only authorized personnel are allowed access to the Processing Center and Data Center. A combination of electronic door strikes, magnetic locks and card access systems are in place to limit access to authorized personnel. All entry from outside the building is controlled with the card access system. After business hours, Paypro's facility is equipped with an electronic alarm system that utilizes door contacts and motion detectors. New employees are granted access to the Company's offices, Processing Center and Data Center based on their responsibilities. Terminated employees' access is removed timely upon termination.

Environmental Controls

Should the building encounter a short-term power outage of less than 20 seconds, the system has an uninterruptible power supply ("UPS") that protects computers and alarm systems from power outages, surges or failures. The UPS provides at least 3 hours of uninterruptible power, if necessary, to allow an orderly shutdown of the equipment.

In the event of a long-term power outage the building is equipped with a 90 KW 312 AMP, 3-phase natural gas generator that provides power to the building and payroll system automatically.

Regularly scheduled preventive maintenance is performed on the generator as well as on computers and printing equipment by the equipment vendors. Computer operators also perform maintenance on printers.

Backups

Data and programs are automatically backed up on a scheduled basis to a remote online backup site. All backups are logged. The daily backup processes reasonably assure that programs and data can be restored in the event they are needed or if there is a disaster.

The payroll processing system runs on a Redundant Array of Independent Disks ("RAID") level 10 multiple server drive configuration that shares data across hard disk drives. RAID level 10 is unique because it writes parity information to all of the disks simultaneously. In the event of a drive failure, the remaining drives continue to perform and fill in any missing data. The Company also maintains multiple redundant file servers for use if the primary file server fails, so that services to user entities are not interrupted.

The Company uses dual Internet providers and a backup site with automated failover processes in place. In the event the Company's primary facility goes offline, the Company can operate at its secondary location with minimal interruption.

Logical Access

Processes exist to limit access to the payroll system. Users of the payroll system are assigned a unique user name and password which allows them access to payroll processing software and various levels of authorization including viewing information, payroll data entry, editing user entity company data structures, file transfers and payroll processing.

System controls limit user entity access to the system via Remote Access Security. Each user entity who utilizes either Paypro's Personal Computer ("PC") or web input product has limited access to the Company's payroll processing system which restricts them to their payroll data and records. The software application installed at the user entities location or web browser is configured to gather or provide access to its payroll and payroll-related data via data synchronization.

Both the PC and web input products automatically initiate the login. Once the payroll processing system accepts the login script, the system allows data to be exchanged between that user entity and the payroll processing system, known as synchronization. The synchronization uses Hyper Text Transfer Protocol Secure ("HTTPS") to communicate between the user entity and the processing site. Triple Data Encryption Standard ("DES") encryption and internal consistency

PAYPRO
CORPORATION
"THE DIFFERENT SOLUTION"

checks are used to reasonably assure data in transit cannot be viewed by any party except the destination site and that transmissions are accurate and complete. For PC input, the user entity has no direct access to the system or data files other than the ability to receive and transmit data to and from the system. The web input product limits access to personnel whose identity has been authenticated. The firewall rule bases are configured to prevent unauthorized access to the system. A firewall policy exists including procedures to monitor firewall traffic coordinated with intrusion detection and response responsibilities.

The application software automatically logs off users from the system after 20 minutes of inactivity.

The PC Payroll system restricts access to authorized users with user and password security on the user entities PC. To access the PC input software menu, a user must login with a valid user ID and password. Passwords must be between 8 and 32 characters, containing upper and lower case letters and at least a number between 0 and 9. If a password does not meet the minimum requirements, the user will be prompted to change it.

The user entities PC database is synchronized with the system and user entities receive an error message on their PC should the synchronization process fail. The system maintains a record of the date and time a transmission was sent or received by a user entity. All data files transmitted between Paypro and user entities are secure and web input communications between the user entity web browser and the web server are encrypted using Secure Socket Layer ("SSL").

7.   Application Controls

The Paypro Payroll Process

Paypro provides payroll services to established user entities, new user entities and new user entities converting from other payroll service bureaus. Payrolls are processed in various frequencies. Each day involves the entering of payroll data, the review of payroll data for accuracy and the processing of payroll data.

Payroll Input

Depending on the number of people a user entity employs, a user entity can transmit their data either by fax or electronically through their PC or via web input.

Transmission by Fax

User entities that transmit their payroll information via fax utilize a preprinted input worksheet supplied by Paypro for each pay period. The user entity fills in the hours or dollars to be paid to each employee. The user entity totals the hours or dollars and enters the grand total of hours and/or dollars on a summary page. The Paypro Payroll Specialist assigned to that user entity enters the payroll data into the system and compares the user entities totals to those on the system. The control totals reasonably assure the accuracy of the payroll. If there is a discrepancy, the Payroll Specialist investigates the discrepancy, discusses the differences with the user entity and makes the appropriate corrections before processing the payroll.

PC and Web Input

If a user entity transmits their payroll information via PC or web input, the user entity enters all payroll data directly at their location each pay period. The data is transmitted to Paypro where it is checked by the system for validity. After validation, the Payroll Specialist performs various audit functions to identify potential issues. The Payroll Specialist also reviews the user entities check date, number of checks to be processed, total payroll liability and gross wages prior to processing. If any items are found to be inconsistent, the Payroll Specialist contacts the user entity and resolves the inconsistencies before processing the payroll. User entities are encouraged to use control totals provided by the system. As pay data is entered, field totals accumulate and when all employees' data has been entered, the control totals are compared to accumulated totals and variances, if any, are displayed.

Each PC and web input user entity has access to audit reports to check accuracy and completeness of the data input. Reports include a preprocess register, employee change report and employees not paid report. User entities are encouraged to use these reports on a regular basis.

Loading New Client Information

The Company's Educational Services Department works directly with the Sales Department and new user entities to reasonably assure that all necessary information is obtained. The following procedures are followed:

- A New Client Checklist outlines the information required to set up a new user entity in order to provide a smooth and complete transition.
- A standard New Company Information Form is prepared which lists all general company information.

- If a new user entity has previous payroll and tax information for the current year, copies of year-to-date payroll registers and quarterly tax returns are gathered to reconcile year-to-date and quarter-to-date payroll figures.
- All new user entity data is reviewed and checked for accuracy. Control totals are used to validate employee year-to-date amounts. Variances are investigated and resolved.
- A New Client Log is maintained by Educational Services to track the setup status of each new user entity.

For new PC or web input user entities, a training session is conducted prior to their first payroll processing. The training session includes a review of their company information and employee profiles, how to transmit and receive payroll data, the payroll information to be compiled and the importance of verifying control totals. All user entities receive a letter from the Company welcoming them and informing them of various Paypro contacts should they have any questions.

Upon the processing of the user entity's first payroll, a checklist is prepared by each Paypro department reviewing certain critical information as it is performed. A final review is completed prior to packaging the payroll to reasonably assure that all reports are included and all payroll figures are accurate.

Payroll Processing

Payroll data can be entered into the system either by remote entry through PC or web products or by the Payroll Specialists. Each user entity has a unique user entity number and each day the Payroll Specialists receive their list of user entities scheduled to be processed for that day. The Payroll Specialists contact the user entities to confirm that day's processing. Paypro employees are instructed to speak only with authorized representatives of the user entity and user entity contact lists are maintained and updated on a regular basis.

The overall processing schedule distributed to each Payroll Specialist and the Payroll Processing Department is maintained by management. The schedule lists the user entity number, user entity name, Payroll Specialist assigned, transmission type (fax, PC or web input,) check date, whether or not the user entity has been contacted, whether or not processing has been confirmed, the anticipated time that the user entity will transmit the payroll, the actual time the user entity transmitted the payroll and the time the payroll has been completed.

The daily payroll processing cycle begins when a Payroll Specialist has approved a payroll for processing. When a payroll is ready to be processed, the Payroll Specialist prints the payroll

register prior to processing. The Payroll Specialist reviews the payroll register for various inconsistencies and recalculates federal taxable wages as well as verifies that the proper percentages were withheld for Medicare and Social Security taxable wages. If the Payroll Specialist finds a discrepancy they contact the user entity for resolution or place the payroll on hold for supervisor review or approval. Only payrolls marked "Approved" can be sent to the Payroll Processing Department for processing.

Once a payroll has been verified and approved, the Payroll system will initiate processing. The system automatically reviews the payroll and verifies that the payroll date is equal to or greater than the processing date, that all required employee data such as earnings, deductions, department and tax codes agree with the system. If the system detects any discrepancies, it will stop processing and notify the system supervisor of the discrepancy.

The Payroll Processing Department runs the payroll which calculates total wages, tax deductions, voluntary deductions, net pay, user entity liabilities, related payroll tax obligations and due dates. Once completed, all payroll database files are updated and available to be received electronically by PC or web input user entities to update and synchronize with their in-house system.

Tax Calculations

To reasonably assure that tax calculations are accurate and up to date, the Tax Department maintains on an ongoing basis contact with federal, state and local tax agencies. The Tax Department monitors changes to tax calculations, deposits and reporting requirements. The Company subscribes to numerous tax publications and services including BNA Payroll Administration Guide and Research Institute of America. When a change is required, the Tax Department will compute the appropriate adjustment and make the changes in the system.

Tax Payments

Data processing activities include impounding funds from user entities for withholding taxes and processing and reviewing them each day for errors. Tax Service user entities have authorized Paypro to impound their tax liabilities and remit payments on their behalf to the taxing authorities. The data center processes files to be transmitted to user entities' banks with instructions for impounding funds for payroll tax liabilities for user entities who subscribe to Paypro's full Tax Service. The Processing Department reviews the files for completeness and control totals are logged into the system's database. If no exceptions are noted, the files are sent in

the standard National Automated Clearing House Association ("NACHA") format through the Automated Clearing House ("ACH") Network.

Each week the Tax Department reviews various liability reports which indicate tax liabilities computed and tax deposits made for user entities who subscribe to the Company's full Tax Service to provide reasonable assurance that funds that have been impounded have been remitted. If there is a difference between tax liabilities and tax deposits made, the Tax Department will investigate and resolve the issue.

For user entities who subscribe to the Company's Tax Service, the Tax Department will reconcile tax payment due dates against the payments scheduled to be made that business day to reasonably assure that tax obligations due have been paid in a timely manner. If there is a difference, the Tax Department will investigate and resolve the issue.

Payroll Output

Paypro user entity payroll checks are generated using laser Magnetic Ink Character Recognition ("MICR") printers. The check stock incorporates security features to prevent unauthorized use or reproduction. Checks incorporate warning bands at the top of the check and a void pantograph which protects them from being copied or scanned. Additional security features include the Paypro logo in thermochromic ink which responds to warmth, an artificial watermark, micro printed border and toner secure stock.

Unused check stock and check printing equipment are kept in a secure area and access is limited to authorized personnel. Unused check stock and check printing equipment is maintained in the Company's Processing Department. Access to the Processing Department is controlled through the use of the Company's door access system. Doors leading to the department are locked and only authorized individuals are granted access. All check stock is secured in locked storage locations.

User entities may select the Company's Laser Signing Service that automatically signs checks with their authorized signature. The user entity's signature is obtained on a signature form and scanned creating a signature file in a printer format. The Company's software program selects the correct user entity signature file and inserts the signature electronically on the checks as they are processed.

Client specifications for checks, files and reports are maintained in the payroll system's master company setup "Pack-out" fields. The Delivery Specifications report is printed at the beginning of each check print job which designates special delivery instructions. All reports to be distributed to user entities contain a delivery report which prints at the beginning of the print run. The delivery report designates the address and the name of the person the reports and checks are to be delivered to. The Processing Department personnel follow the instructions on the reports.

The Pack-out report is used by the Payroll Processing Department to verify the number of checks issued. User entities may also subscribe to the Company's check sealing services. This service automatically folds and seals checks by using a one-piece pressure seal check format and the folding equipment automatically counts the number of checks sealed. The Processing Department compares the machine totals to control reports and investigates and resolves any discrepancies.

Payroll checks and reports are printed in the order of processing and once a company's checks and reports are printed, the system inserts a slip sheet before it begins to print the job for the next company. As a result, the Processing Department can easily distinguish between companies during multiple user entity processing runs.

The checks and reports are removed from the printers and placed in bins for packaging. The packaging process begins by removing the reports and checks from the staging bins and the operator reviews a Pack-out report, which indicates the number of checks printed, the delivery address and any other special instructions. The operator packages the appropriate reports and checks in a user entity envelope.

The Payroll Processing Department confirms that all payrolls scheduled to be processed have been processed and prepared for shipping. If there is a discrepancy, the Processing Department notifies the Payroll Specialist for investigation. After processing the payroll, Paypro provides user entities with checks, direct deposit vouchers, standard reports and other related payroll information.

Checks and Direct Deposit Vouchers

Every payroll user entity receives negotiable paychecks or non-negotiable statements for direct deposit recipients. All pay statements include detailed current payroll period earnings, tax withholding and voluntary deductions as well as year-to-date information pertaining to earnings, tax withholding and voluntary deductions for all employees.

Payroll checks and reports are delivered to user entities by private courier service, United States Postal Service, or other overnight commercial delivery companies. The Distribution Department logs the packages into the delivery system and sorts the packages by delivery type.

At the end of the day the Distribution Department runs a report comparing the packages ready for delivery to the payrolls processed by the Processing Department and investigates any discrepancies. Once all discrepancies are resolved, the Distribution Department produces a manifest for each courier listing the names of the user entities that payrolls are to be delivered to and a control total by courier.

Web-Based Portal

Paypro's web-based portal ("portal") allows Paypro's user entities to download reports such as payroll reports, bank reconciliations, 401k information, union information and tax filings, and other payroll related reports. The IT Manager is responsible for the portal's reliability and for setting up the automatic download of user entity information to the portal in a timely fashion.

8.   Subservice Organizations

Paypro uses MPay, Inc., a subservice organization, for hosting payroll accounting and payroll processing software applications, and Continuity Centers, a subservice organization, for data replication and backup services. The subservice organizations' controls and related control objectives are omitted from the description using the carve-out method, and the control objectives in the report include only the objectives Paypro's controls are intended to achieve.

9.   Control Objectives

Paypro's control objectives and related controls are the responsibility of management and have been included in Section Three of this report, "Information Provided by the Service Auditor", to avoid redundancy. Although the control objectives and related controls are included in Section Three, they are an integral part of Paypro's description of the system.

PAYPRO
CORPORATION
"THE DIFFERENT SOLUTION"

10.   Complementary User Entity Controls

The controls at Paypro were designed with the assumption that certain controls would be implemented by user entities. There may be additional controls that would be appropriate to the services provided to user entities that are not identified in this report. This section describes certain controls that user entities should consider and should not be regarded as a comprehensive list of all controls that should be employed by user entities. User entities are responsible for the following:

Payroll Input

	Complementary User Entity Control	Control Objectives Described in Section Three to which the Complementary User Entity Control Applies
1	New user entities should carefully review employee profiles and verify year-to-date information from their first payroll processed to determine that all data is accurate and complete.	6, 8
2	PC and web input user entities utilize control totals and preprocess audit reports to determine that all payroll wages are paid accurately and timely.	6
3	PC and web input user entities utilize the password security system and limit the access to authorized personnel only.	2, 5
4	User entities that prepare input work sheets and transmit them via fax have procedures in place to accumulate payroll data in an orderly fashion and prepare input worksheets neatly with control totals to reasonably assure the accuracy of payroll data.	6

Payroll Output

	Complementary User Entity Control	**Control Objectives Described in Section Three to which the Complementary User Entity Control Applies**
5	User entities should have control procedures in place to limit the discussion of payroll data to authorized user entity personnel.	6
6	User entities should have control procedures in place to restrict the receipt of payroll deliveries to authorized user entity personnel.	10
7	User entities should have procedures in place to reasonably assure that bank accounts used for payroll disbursements are reconciled on a timely basis.	8, 11
8	User entities should carefully review reports provided by Paypro and report discrepancies to Paypro in a timely fashion.	10, 11

SECTION THREE – INFORMATION PROVIDED BY THE SERVICE AUDITOR

J.H. COHN LLP
Accountants and Consultants since 1919

Information Provided by the Service Auditor

1. Overview of the Control Objectives, Control Activities, Testing Procedures and Results of Tests

The description of the system provided by Paypro in the preceding section and information on the tests of operating effectiveness provided by J.H. Cohn LLP taken together are intended to enable Paypro's user entities and their auditors to understand IT general controls and application controls related to the system.

Control objectives are an integral part of Paypro's risk assessment and control procedures. They allow a structured approach for management to identify and evaluate threats and design and implement control procedures. Management is responsible for specifying the control objectives.

Control activities are the procedures management implements to provide reasonable assurance that risks are minimized and that control objectives are achieved. The description of the system provided by Paypro in Section Two, and the tests of operating effectiveness provided by J.H. Cohn LLP in this section, have been prepared according to the Committee of Sponsoring Organizations ("COSO") Internal Control Integrated Framework which defines internal control as consisting of the following five key components:

- Control environment
- Risk assessment
- Information and communications
- Control activities
- Monitoring

COSO recognizes that the five key components listed above are interrelated and that the control activities that organizations implement may address one or more of the components. Companies often consider control activities in two broad areas: pervasive IT general controls and discrete application controls. IT general controls are considered pervasive because they interact with the effectiveness of many other controls. Application controls are considered discrete because they affect a specific business process. Application controls generally focus on input, processing, error correction and output, and seek to achieve completeness, validity, accuracy and timeliness for a specific process.

Both IT general control and application control objectives are generally achieved through authorization, documentation, segregation of incompatible duties, safeguarding of assets, and reviews and reconciliations.

Section Three of this report describes the nature, timing, extent and results of tests J.H. Cohn LLP performed, the objective of which was to obtain sufficient evidence to provide reasonable, but not absolute, assurance that Paypro's control objectives were achieved throughout the period from November 1, 2010 to October 31, 2011. Observations were performed during the examination period, and samples were selected so that they were representative of the population from which they were selected. In designing our tests, we considered the importance of the control objective, the characteristics of the control procedure, the attributes of the related evidence, our assessment of control risk, and our expectation of efficiency and effectiveness of the test.

J.H. COHN LLP
Accountants and Consultants since 1919

2. Control Objectives, Related Controls and Tests of Operating Effectiveness

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
General Controls		
Control Objective 1: Controls provide reasonable assurance that physical access to the Company's facilities is restricted to authorized personnel.		
[1.1] Only Paypro employees are allowed access to the office. All visitors and guests are restricted to the reception area, unless escorted by Company personnel. Only authorized personnel are allowed access to the Processing Center and Data Center. A combination of electronic door strikes and magnetic locks are in place that secure the doors and card readers are used to read the access cards. All outside entrances are controlled with the card access system. After business hours, Paypro's facility is equipped with electronic alarm systems that utilize door contacts and motion detectors.	*Observed* receptionist at various times of the day monitoring visitors and announcing their arrival.	No exceptions noted.
	Observed that all doors to offices are closed and all visitors must be escorted in.	No exceptions noted.
	Observed the facilities and verified that a card access system is in place.	No exceptions noted.
	Observed the presence of an active alarm system.	No exceptions noted.
	Inspected the access rights of a haphazard sample of individuals who have access to the Processing Center and Data Center to determine if such access is appropriate.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
General Controls		
Control Objective 1: Controls provide reasonable assurance that physical access to the Company's facilities is restricted to authorized personnel.		
[1.2] Terminated employees' access to the Company's office, Processing Center and Data Center is removed timely.	*Inquired* of the Security Administrator regarding the process for removing terminated users' access to the facilities to determine if terminated employees' access to the Company's facilities is removed in a timely manner.	No exceptions noted.
	Inspected the access rights of a haphazard sample of terminated employees to determine if their access to the facilities was removed in a timely manner.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	Tests Performed by J.H. Cohn LLP	Results of Tests
General Controls		
Control Objective 1: Controls provide reasonable assurance that physical access to the Company's facilities is restricted to authorized personnel.		
[1.3] Access is granted to the Company's office, Processing Center and Data Center based on a new employee's responsibilities.	*Inspected* the access rights of a haphazard sample of new employees to determine if their access to the Company's office, Processing Center and Data Center is appropriate based on the new employee's job responsibilities.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
General Controls		
Control Objective 2: Controls provide reasonable assurance that access to the payroll system software and data is restricted to authorized personnel.		
[2.1] All users of the system are assigned a unique user name and password which allows them access to various functions including viewing information, data entry, editing user entity company structures, file transfers and payroll processing based on their job responsibilities.	*Inspected* the access rights of a haphazard sample of users with access to the system to determine if their access was commensurate with their job responsibilities.	No exceptions noted.
	Inspected the system application software configuration to determine whether it requires a specific unique user name and password.	No exceptions noted.
	Observed the Security Administrator executing a login attempt to the system application software using an invalid user name and password to determine if access is denied.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	Tests Performed by J.H. Cohn LLP	Results of Tests
General Controls		
Control Objective 2: Controls provide reasonable assurance that access to the payroll system software and data is restricted to authorized personnel.		
[2.1] See control procedure on previous page.	*Inquired* of the Security Administrator regarding access privileges to the payroll system database to determine if access is limited based on job function.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
General Controls		
Control Objective 2: Controls provide reasonable assurance that access to the payroll system software and data is restricted to authorized personnel.		
[2.2] PC and web input products automatically initiate the login which allows data to be exchanged between user entities and Paypro. The synchronization uses the HTTPS protocol for communication between the user entity and Paypro with triple DES encryption to prevent unauthorized access. Firewall rules are configured to prevent unauthorized access to the payroll processing systems. A firewall policy exists including procedures to monitor firewall traffic coordinated with intrusion detection and response responsibilities.	*Inspected* the configuration settings to determine whether the system is configured to synchronize user entity files and data exchanged between the user entity and Paypro.	No exceptions noted.
	Inspected the system documentation to determine whether the system initiates login.	No exceptions noted.
	Inspected a file transmission to determine whether files are encrypted.	No exceptions noted.
	Inquired of management to determine that the firewall rule bases are configured to prevent unauthorized access to the payroll processing systems.	No exceptions noted.
	Inspected the January 2011, April 2011 and July 2011 firewall traffic and intrusion detection reports to determine if they exist.	No exceptions noted.

■■ J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
General Controls		
Control Objective 2: Controls provide reasonable assurance that access to the payroll system software and data is restricted to authorized personnel.		
[2.3] The system is configured to automatically log off users after 20 minutes of inactivity.	*Inspected* the system application software to determine whether users are automatically logged off after 20 minutes of inactivity.	No exceptions noted.
[2.4] Logical access to the network and servers is monitored so that unauthorized access attempts and security breaches may be detected in a timely fashion. The IT Manager reviews the domain controller logs weekly.	*Inquired* of the CEO to determine if the IT Manager reviews the audit logs weekly.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
General Controls		
Control Objective 3: Controls provide reasonable assurance that precautionary procedures are in place against potential computer downtime and that procedures are in place for the continuity of computer operations.		
[3.1] The system has an uninterruptible power supply ("UPS") that protects computers and the alarm system from power outages, surges or failures should the building encounter a short-term power outage. In the event of a long-term power outage the building is equipped with a 90 KW 312 AMP, 3-phase natural gas generator that powers the building and payroll system automatically. Regularly scheduled preventive maintenance is performed on the generator, computers and printing equipment by vendors. Computer operators also perform maintenance on printers.	*Inquired* of data center management to determine if there is an UPS that protects computers and alarms from power outages, surges or failures.	No exceptions noted.
	Observed the UPS battery backup equipment in the data center.	No exceptions noted.
	Observed the standby electric power generator.	No exceptions noted.
	Inspected evidence of the most recent regularly scheduled preventive maintenance performed on the generator.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	Tests Performed by J.H. Cohn LLP	Results of Tests
General Controls		
Control Objective 3: Controls provide reasonable assurance that precautionary procedures are in place against potential computer downtime and that procedures are in place for the continuity of computer operations.		
[3.2] The payroll processing system runs on a RAID level 10 multiple server drive configuration that shares data across all hard disk drives in an array. RAID level 10 is unique because it writes parity information to all of the disks in the array simultaneously. In the event of a drive failure, the remaining drives continue to perform and fill in any missing data. The Company maintains multiple file servers to reasonably assure that in the event the primary file server malfunctions, a secondary server is available.	*Inquired* of the Data Center manager regarding the RAID level 10 multiple server drive configuration to determine if the payroll processing application is run on this hardware.	No exceptions noted.
	Inquired of the Data Center manager to determine if, in the event of a drive failure, the remaining drives will continue to perform and fill in any missing data.	No exceptions noted.
	Inquired of the Data Center manager to determine if the Company maintains multiple file servers to ensure that in the event the primary file server malfunctions, a secondary server is available.	No exceptions noted.
	Observed the secondary servers located in the Data Center for use in the event the primary file server malfunctions.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	Tests Performed by J.H. Cohn LLP	Results of Tests
General Controls		
Control Objective 3: Controls provide reasonable assurance that precautionary procedures are in place against potential computer downtime and that procedures are in place for the continuity of computer operations.		
[3.2 - continued] - Paypro maintains dual Internet providers with automatic failover processes in place. In the event the Company's primary facility goes offline, the Company can operate at its secondary location with minimal interruption.	*Inspected* the system configuration to determine if the Company has dual Internet providers in place.	No exceptions noted.
	Inquired of the Data Center manager to determine if, in the event the Company's primary facility becomes inaccessible, the Company can operate at its secondary location with minimal interruption.	No exceptions noted.
	Inquired of the Paypro IT Security Director regarding the process of switching to the secondary location from the primary with minimal interruption.	No exceptions noted.
	Inspected the backup logs and documentation of the most recent redundancy test of the secondary data center to determine whether data exchange between the Company's primary and secondary locations is complete.	No exceptions noted.
	Inspected the switchover logs indicating use of the secondary Internet provider.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
General Controls		
Control Objective 4: Controls provide reasonable assurance that data and programs are backed-up on a scheduled basis.		
[4.1] The Data Center performs daily backup processes to ensure integrity of data. Data and programs are automatically backed up on a scheduled basis to a remote online backup site. The backup system ensures that in the event of a disaster user entity data and services can be restored.	*Inquired* of the Data Center Manager to determine if daily backup processes are performed to ensure data integrity.	No exceptions noted.
	Inspected evidence of the most recent daily, weekly and monthly backups to determine whether the system and data are backed up in accordance with the schedule.	No exceptions noted.

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
General Controls		
Control Objective 5: Controls provide reasonable assurance that the system restricts access to authorized personnel only for entering user entity transactions into the system and that payroll data transmitted between user entities and the Company are authorized and secure.		
[5.1] The PC Payroll system restricts access to authorized users with a user ID and password on the user entity's PC. Passwords must be between 8 and 32 characters, containing upper and lower case letters and at least a number between 0 and 9. If a password does not meet the minimum requirements, the user will be prompted to change it.	*Observed* the Payroll Specialist access the system to determine if a valid user ID and password are required.	No exceptions noted.
	Observed the CIO attempt to log on via web input to determine that the application requires a valid user name and password.	No exceptions noted.
	Inspected the system application password parameter settings to determine if they are adequate.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
General Controls		
Control Objective 5: Controls provide reasonable assurance that the system restricts access to authorized personnel only for entering user entity transactions into the system and that payroll data transmitted between user entities and the Company are authorized and secure.		
[5.2] The user entities' PC database is synchronized with the system and user entities receive an error message if the synchronization process fails. The system maintains a record of the date and time a transmission was sent or received by a client. All data files transmitted between Paypro and its user entities are encrypted.	*Inquired* with the Data Manager Supervisor to determine if user entities' PC databases are synchronized with the system.	No exceptions noted.
	Inspected the system's synchronization settings to determine if it is configured to synchronize user entities' and Paypro's data.	No exceptions noted.
	Observed an unsuccessful attempt to synchronize payroll data to determine if the system generated an error message.	No exceptions noted.
[5.3] Web input communications between user entities' user entity web browsers and the system's web server are encrypted using SSL.	*Inspected* the system's SSL encryption certificate to determine that web input communications are encrypted.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
Application Controls		
Control Objective 6: Controls provide reasonable assurance that the input of user entity payroll transactions is complete, accurate and processed in a timely manner.		
[6.1] An overall schedule is maintained by management and distributed to each Payroll Specialist and the Payroll Processing Department. The schedule lists the user entity number, name, Payroll Specialist assigned, transmission type (fax, PC or web input) check date, whether or not the user entity has been contacted and processing confirmed, anticipated time that the user entity will transmit, the actual time the user entity did transmit, and the time the payroll was completed.	*Inquired* of the Payroll Specialist Supervisor to determine if procedures are in place to maintain an overall scheduling process that is distributed to each Payroll Specialist and the Payroll Processing Department.	No exceptions noted.
	Observed the use of the scheduling system to determine the accuracy of the information entered.	No exceptions noted.
	Observed a Payroll Specialist contacting user entities according to the schedule to confirm that day's processing.	No exceptions noted.
Each day, Payroll Specialists receive the list of user entities scheduled to be processed and contact the user entities to confirm the day's processing.	*Inspected* the Client List for a judgmental sample of user entities to determine if each user entity has a unique user entity number.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
Application Controls		
Control Objective 6: Controls provide reasonable assurance that the input of user entity's payroll transactions is complete, accurate and processed in a timely manner.		
[6.1 – continued] The Payroll Processing Department confirms that all payrolls scheduled have been processed and prepared for shipping. If there is a discrepancy, the Processing Department notifies the Payroll Specialist to investigate the discrepancy.	*Inspected* documentation of the most recent discrepancy to determine if it was properly documented and resolved in a timely fashion. Timeliness is defined by Paypro as one day, unless a discrepancy requires further investigation.	No exceptions noted.
[6.2] Payroll information is discussed only with authorized user entity contacts. Paypro employees are instructed to speak only with authorized representatives of the client. Client contact lists are maintained and updated on a regular basis.	*Inspected* the Company's policy and procedures that specify that Company personnel are instructed to only speak with authorized user entity contacts.	No exceptions noted.
	Inspected evidence for a judgmental sample of user entities to determine if the payroll system contains the required information with respect to user entity contacts.	No exceptions noted.
	Inquired of a haphazard sample of payroll specialists to determine if they understood the restriction regarding discussion of payroll information with authorized user entity representatives only.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
Application Controls		
Control Objective 6: Controls provide reasonable assurance that the input of user entity's payroll transactions is complete, accurate and processed in a timely manner.		
[6.3] If a user entity transmits their payroll information via fax, they complete a preprinted input worksheet supplied by Paypro for each pay period. The user entity totals the hours or dollars for all employees and enters the grand totals on a summary page. The payroll specialist assigned to that user entity enters the payroll data into the system and compares the user entity's totals to those on the system. If there is a discrepancy, the payroll specialist investigates, discusses the differences with the user entity and makes the appropriate corrections before processing the payroll.	*Observed* a haphazard sample of payroll specialists inputting data from the preprinted input worksheet that was faxed to Paypro by the user entity and compared the system totals to user entity reported totals	No exceptions noted.
	Inspected the totals on the user entity's fax input sheet for a haphazard sample of Payroll Specialists and compared them to the system totals to determine if they agreed.	No exceptions noted.
	Observed a haphazard sample of Payroll Specialists inputting data and that there were no discrepancies between the user entity's totals on the input worksheets and those on the system.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
Application Controls		
Control Objective 6: Controls provide reasonable assurance that the input of user entity's payroll transactions is complete, accurate and processed in a timely manner.		
[6.4] PC or web input user entities enter all payroll data directly online each pay period. The data is transmitted to Paypro where the system validates the data. After validation, the Payroll Specialist performs various audit functions to identify potential issues. The Payroll Specialist also reviews the user entity's check date, number of checks to be processed, total payroll liability and gross wages prior to processing. If any items are found to be inconsistent, the Payroll Specialist contacts the user entity and resolves them before continuing. User entities are encouraged to use control totals provided by the system. As pay data is entered, field totals accumulate and when all employees' data have been entered, the control totals are compared to accumulated totals and variances are displayed.	*Inspected* a haphazard sample of PC and web input user entities' payrolls to determine that the payroll transmissions were received.	No exceptions noted.
	Inspected documentation for a haphazard sample of PC and web input user entities' payrolls to determine if the Payroll Specialist reviewed the user entity's check date, number of checks to be processed, total payroll liability and gross wages prior to processing, and compared them to previous payrolls processed maintained in user entity log files to determine whether the control totals and check counts and were reasonable.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
Application Controls		
Control Objective 6: Controls provide reasonable assurance that the input of user entity's payroll transactions is complete, accurate and processed in a timely manner.		
[6.5] Each PC and web user entity has access to several audit reports to verify accuracy and completeness of data input. Reports include a preprocess register, employee change report and employees not paid report. User entities are encouraged to use these reports on a regular basis.	*Inquired* of a haphazard sample of payroll specialists to determine if they understood the audit reports available to user entities.	No exceptions noted.
[6.6] The Company's Educational Services Department works directly with the Sales Department and new user entities to reasonably assure necessary information is obtained.	*Inquired* of the Educational Services Department manager to determine if there are procedures and systems in place to gather information with respect to loading a new entities' company information and the forms and schedules that are included in each user entity account file.	No exceptions noted.

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
Application Controls		
Control Objective 6: Controls provide reasonable assurance that the input of user entity's payroll transactions is complete, accurate and processed in a timely manner.		
[6.7] The Educational Services Representative prepares the New Client Checklist, standard New Company Information Form and obtains previous payroll and tax information for the current year, year-to-date payroll registers and quarterly tax returns.	*Inspected* user entity permanent account files for a haphazard sample of new user entities to determine whether key implementation documents including forms and schedules are included in the file.	No exceptions noted.
[6.8] New user entity data is reviewed and checked for accuracy. A system of control totals is used to validate employee year-to-date amounts. Any variances are investigated and resolved.	*Inspected* the first payroll review form for a haphazard sample of new user entities to determine whether it was reviewed for completeness and accuracy.	No exceptions noted.
[6.9] A New Client Log is maintained by Educational Services to track the setup status of each new user entity.	*Inspected* the New Client Log maintained by the Educational Services Department for a haphazard sample of new user entities to determine if each was complete.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	Tests Performed by J.H. Cohn LLP	Results of Tests
Application Controls		
Control Objective 7: Controls provide reasonable assurance that payroll data is recorded completely and accurately.		
[7.1] When a payroll is ready to be processed, the Payroll Specialist prints a payroll register prior to processing. The Payroll Specialist will look for various inconsistencies and calculate various withholdings and employer taxes for accuracy. If a Payroll Specialist finds an inconsistency they contact the user entity for resolution or place the payroll on hold for supervisor review or approval. Only payrolls marked "Approved" can be sent to the Payroll Processing Department for processing.	*Observed* a haphazard sample of Payroll Specialists reviewing payroll data for inconsistencies, and observed them follow up and resolve the discrepancies.	No exceptions noted.
	Reperformed the calculation of employer taxes for a haphazard sample of user entity payrolls to determine if they were calculated accurately.	No exceptions noted.
[7.2] Once a payroll has been verified and approved, the Payroll system will initiate processing. The system automatically reviews the payroll and verifies that the payroll date is equal to or greater than the processing date and employee data such as earnings, deductions, department and tax codes agree with the system. If the system detects discrepancies, it will stop processing and notify the system Supervisor of the discrepancy.	*Inspected* a haphazard sample of user entity payrolls to determine if the system checks that the payroll date is equal to or greater than the processing date.	No exceptions noted.
	Inspected a haphazard sample of user entity payrolls to determine if the system checks that the calculation of employees' earnings, deductions and tax withholding are accurate and complete.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	Tests Performed by J.H. Cohn LLP	Results of Tests
Application Controls		
Control Objective 8: Controls provide reasonable assurance that applicable tax rates are used to process payroll deductions for federal, state and local tax withholding calculations and all tax payments are impounded and paid in a timely manner.		
[8.1] To reasonably assure that tax calculations are accurate and up to date, the Tax Department maintains contact on an ongoing basis with federal, state and local tax agencies. The Tax Department monitors changes to calculations, deposits and reporting requirements. The Company subscribes to numerous tax publications and services including BNA Payroll Administration Guide and Research Institute of America. When a change is required, the Tax Department will compute the appropriate adjustment and make the changes in the system.	*Inquired* of management to determine if the Tax Department maintains the various referenced guides maintained by the Tax Department.	No exceptions noted.
	Reperformed the calculation a haphazard sample of user entity employees' payroll tax withholdings and compared the recalculated numbers to the payroll system, to determine whether the tax withholding was calculated in accordance with the tax specifications.	No exceptions noted.
	Inspected documentation of the tax liabilities and deposits of a haphazard sample of employee payrolls to determine if the tax deposit amount and timing was in compliance with the taxing agency's requirements.	No exceptions noted.

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
Application Controls		
Control Objective 8: Controls provide reasonable assurance that applicable tax rates are used to process payroll deductions for federal, state and local tax withholding calculations and all tax payments are impounded and paid in a timely manner.		
[8.2] Tax Service user entities have authorized Paypro to impound their tax liabilities and remit payments on their behalf to the taxing authorities. The Data Center processes files to be transmitted to user entity's banks with instructions for impounding funds for user entity payroll tax liabilities for Tax Service user entities who subscribe to Paypro's full tax services. The Processing Department reviews the files for completeness and control totals are logged into the system database. If no exceptions are noted, the files are sent in the standard NACHA format through the ACH Network.	*Inquired* of the Controller to determine if there are daily procedures regarding tax liability remittance payments sent in the standard NACHA format through the ACH Network.	No exceptions noted.
	Inspected evidence for a random sample of business days that a haphazardly selected ACH file for each sample day was received and posted through NACHA.	No exceptions noted.
	Inspected evidence for a random sample of business days and a haphazardly selected ACH file for each sample day that the total dollar amount received by ACH agrees to the totals sent.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
Application Controls		
Control Objective 8: Controls provide reasonable assurance that applicable tax rates are used to process payroll deductions for federal, state and local tax withholding calculations and all tax payments are impounded and paid in a timely manner.		
[8.3] Each week, the Tax Department reviews various liability reports which indicate tax liabilities computed and tax deposits made for user entities who subscribe to the Company's full Tax Service to provide reasonable assurance that funds impounded have been remitted. If there is a difference between liabilities collected and payments made, the Tax Department investigates and resolves the issue.	*Inquired* of the Controller to determine if a review is performed on the various liability reports which indicate tax liabilities computed and received from the user entity, and tax deposits made for user entities who subscribe to the Company's full Tax Service.	No exceptions noted.
	Inspected a haphazard sample of system Liability Reports to determine that the reports were reviewed by the Controller, Senior Accountant or Tax Specialist and noted that there were no discrepancies or issues identified in the reports.	No exceptions noted.
	Inspected a haphazard sample of Negative Liability Reports to determine that the reports were reviewed by the Controller, Senior Accountant, or Tax Specialist and if there is a difference between liabilities collected and payments made, the Tax Department investigates and resolves the issue.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
Application Controls		
Control Objective 8: Controls provide reasonable assurance that applicable tax rates are used to process payroll deductions for federal, state and local tax withholding calculations and all tax payments are impounded and paid in a timely manner.		
[8.4] For user entities who subscribe to the Company's Tax Service, the Tax Department reconciles tax payment due dates to the payments schedule to be made that business day. Should there be a difference, the Tax Department will investigate and resolve the issue.	*Inspected* a judgmental sample of the Deposit by Due Date Reports to determine if tax payments made by ACH were made on or before the due date.	No exceptions noted.
	Inspected a judgmental sample of the Deposit by Due Date Report to determine that tax payments made by checks were remitted on or before the due date.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
Application Controls		
Control Objective 9: Controls provide reasonable assurance that user entity payroll checks are printed in accordance with user entity specifications and are safeguarded from unauthorized duplication.		
[9.1] Paypro payroll checks are generated using laser MICR printers. When a payroll is processed, the system prints a "pack-out" report that is used by the Payroll Processing Department to verify the number of checks issued. Some user entities use the Company's Laser Signing Service that automatically signs checks with an authorized signature. The user entity's signature is obtained on a signature form and scanned creating a signature file in a printer format. The Company's software selects the correct user entity file and inserts the signature electronically on the checks as they are processed. Some user entities may also use the Company's check sealing services.	*Inquired* of the Distribution Manager to determine if all Paypro payroll checks are generated using laser/MICR printers.	No exceptions noted.
	Observed the payroll check printing production floor and user entity payroll check production and sealing process.	No exceptions noted.
	Inspected the "pack-out" report for a haphazard sample of user entity payrolls to determine that it exists.	No exceptions noted.
	Inspected a payroll check and determined that the laser signature agrees to user entity provided signature.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	Tests Performed by J.H. Cohn LLP	Results of Tests
Application Controls		
Control Objective 9: Controls provide reasonable assurance that user entity payroll checks are printed in accordance with user entity specifications and are safeguarded from unauthorized duplication.		
[9.2] The Company uses check stock that incorporates security features to prevent unauthorized use or reproduction. Checks incorporate a void pantograph which protects them from being copied or scanned and warning bands are placed at the top of the check to protect user entities. Additional security features include the Paypro logo in thermochromic ink which responds to warmth, an artificial watermark, micro printed borders and toner secure stock.	*Inquired* of the COO to determine if controls are in place to safeguard checks from unauthorized duplication, including the use of thermochromic ink, an artificial watermark, micro printed borders and toner-secure check stock.	No exceptions noted.
	Inspected a sample blank check to determine if it contains a void pantograph which protects it from being scanned or copied, a Paypro logo in thermochromic ink, an artificial watermark and a micro printed border.	No exceptions noted.
[9.3] Unused check stock and check printing equipment are maintained in a secure area in the Company's Processing Department where access is limited to authorized personnel. Access to the Processing Department is secured through the use of the Company's door access system. All check stock is secured in locked storage locations.	*Observed* the Processing Department room and determined that the doors to the room are locked and are accessible only through the door card access system.	No exceptions noted.
	Observed blank check stock storage to determine if it is in a locked cabinet in a locked storage room.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
Application Controls		
Control Objective 10: Controls provide reasonable assurance that user entity payroll checks and output reports are complete and distributed in accordance with user entity specifications.		
[10.1] Client specifications for checks, files and reports are maintained in the payroll system's master company setup "Pack-out" fields. The Delivery Specifications report is printed at the beginning of each check print job which designates special delivery instructions. All reports to be distributed to user entities contain a delivery report which prints at the beginning of the print run. The delivery report designates the address and the name of the person the reports and checks are to be delivered to. The Processing Department personnel follow the instructions on the reports.	*Inspected* the packout and delivery reports for a haphazard sample of payrolls and compared them to the information maintained in the user entity's database to determine whether the delivery instructions produced agree to the user entity's specifications.	No exceptions noted.
	Inspected the system generated report summary for a haphazard sample of payrolls to determine that the reports in the database were included in the mailing package and that they match with packout and delivery report instructions.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	Tests Performed by J.H. Cohn LLP	Results of Tests
Application Controls		
Control Objective 10: Controls provide reasonable assurance that user entity payroll checks and output reports are complete and distributed in accordance with user entity specifications.		
[10.2] Payroll checks and reports are printed in the order of processing. Once a user entity's checks and reports are printed, the system inserts a slip sheet before it begins to print the next user entity's payroll. As a result, the Processing Department can easily distinguish between companies during multiple user entities payroll processing.	*Inquired* of the Distribution Manager to determine if payroll checks and reports are printed in the order of processing.	No exceptions noted.
	Observed the system producing slip sheets between printed payrolls.	No exceptions noted.
	Observed distribution personnel collate reports and packing payrolls.	No exceptions noted.
The checks and reports are removed from the printers and placed in bins for packaging. The packaging process starts by removing the reports and checks from the staging bins. The operator reviews the Pack-out Report which indicates the number of checks printed, the delivery address, and any other special instructions. The operator places the appropriate reports and checks in a user entity envelope.	*Inspected* a judgmentally selected sample of payrolls to determine if the completed packages of checks and reports are accurate and include the information requested by the user entities.	No exceptions noted.

Controls Specified by Paypro	Tests Performed by J.H. Cohn LLP	Results of Tests
Application Controls		
Control Objective 10: Controls provide reasonable assurance that user entity payroll checks and output reports are complete and distributed in accordance with user entity specifications.		
[10.3] Payroll checks and reports are delivered to user entities by private courier service, US Postal Service, or other overnight commercial delivery companies. The Distribution Department logs the packages into the delivery system and sorts them by delivery type.	*Observed* the end of day Distribution Department procedures that verify that all payrolls scheduled for distribution were accounted for and processed.	No exceptions noted.
	Inspected the signed courier manifest report for a judgmental sample of payrolls to verify that the payroll was picked up for delivery.	No exceptions noted.
At the end of the day the Distribution Department runs a report comparing the packages ready for delivery to the payrolls processed by the Processing Department and investigates any discrepancies. Once all discrepancies are resolved, the Distribution Department produces a manifest for each courier listing, the user entities that the payroll is to be delivered to and a control total by courier.	*Inspected* the signed courier manifest report for a judgmental sample of payrolls to determine that it was used to monitor and manage the coordination and distribution of payroll packages.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

Controls Specified by Paypro	*Tests Performed by J.H. Cohn LLP*	*Results of Tests*
Application Controls		
Control Objective 11: Controls provide reasonable assurance that user entity reports are available from the Company's web-based portal and are up to date.		
[11.1] Paypro's portal allows user entities to download reports such as payroll reports, bank reconciliations, 401k information, union information, tax filing, and other payroll related reports. The IT Manager is responsible for its reliability and for setting up the automatic download of user entity information to the portal in a timely fashion.	*Inquired* of the IT Manager to determine if the portal allows user entities to download reports.	No exceptions noted.
	Inspected the most recent payroll report for a judgmentally selected user entity downloaded from the portal to determine if it agreed to the hardcopy payroll report for the same period generated by the system.	No exceptions noted.
	Inspected the most recent bank reconciliation for a judgmentally selected user entity downloaded from the portal to determine if it agreed to the hardcopy bank reconciliation that has been retained or a stored electronic copy of the check register to determine if they agree.	No exceptions noted.
	Inspected the most recent tax filing for a judgmentally selected user entity downloaded from the portal to determine if it agreed to the printed copy of the tax filing that has been retained or to a stored electronic copy of the tax filing.	No exceptions noted.

J.H. COHN LLP
Accountants and Consultants since 1919

SECTION FOUR - OTHER INFORMATION PROVIDED BY PAYPRO CORPORATION

Other Information Provided By Paypro Corporation

Subservice Organizations

On November 18, 2011, Paypro implemented written policies and procedures that include an annual review of MPay Inc.'s and Continuity Centers' SOC 1 reports by the CEO.

Other Paypro Products

In addition to the payroll services previously described, Paypro offers the following services. These additional services are not included in the report of our independent auditor.

Human Resource Software

Integrated software that provides the user with personnel data such as dependent information, medical, educational and other personnel information.

Employee Retirement Plans

The Company provides a wide variety of retirement plan types, including start-ups and conversions, profit sharing and 401(k), Safe Harbor, Solos(k), 457, 403(b), Money Purchase plans and more. All plans are integrated with the Company's payroll system and provide design flexibility as well as total cost transparency.

Electronic Services Direct Deposit

User entities can provide their employees automatic deposit of their salaries. Net pay is automatically deposited into an employee's checking and or savings accounts at any ACH member bank.

Employee Benefits Plans

The Company provides comprehensive services to administer various pre-tax employee benefits plans such as Flexible Spending Accounts ("FSAs"), Health Reimbursement Arrangements ("HRAs"), Health Savings Accounts as well as Commuter Reimbursement Accounts fully integrated with the Company's payroll software.

Time and Attendance

The Company offers time clocks and software which automatically calculates employees' time, both regular and overtime, premium pay, holiday pay, tracks tardiness and absenteeism. All time and attendance products are fully integrated with the Company's payroll software.

Employee Self Service

The Company offers user entities the ability to offer their employees confidential access to their personal information. Employees can log on to our secure website and access personal pay information any hour of the day, seven days a week.

Payroll Debit Cards

Paypro offers user entities a unique program that allows the use of direct deposit for employees who do not have a banking relationship. With the issuance of payroll debit cards, employers can eliminate lost and stolen checks, check fraud, and time consuming check reconciliation.