

MPAY, Inc.

Human Capital Management Application Development and Processing Services

Service Organization Control (SOC) Report for the period of July 1, 2013 to June 30, 2014



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I. Report of Independent Service Auditors

To the Board of Directors of MPAY, Inc.

We have examined MPAY, Inc.'s (the "Company") description of its Human Capital Management Application Development and Processing Services (the "System" or "Description") throughout the period July 1, 2013 to June 30, 2014 ("Specified Period") and the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the Description. 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 the Company's controls are suitably designed and operating effectively, along with related controls at the Company. We have not evaluated the suitability of the design or operating effectiveness of such complementary user entity controls.

The Company uses two software providers, one which maintains access to systems used to support COBRA administration (Benaissance) and one which maintains access to systems used to support flexible benefit plan administration processing (Evolution1). The Description in Section III includes only the control objectives and related controls of the Company and excludes the control objectives and related controls of the third-party software providers. Our examination did not extend to controls of the third-party software providers. 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 Specified Period and the subservice organizations applied the controls contemplated in the design of the Company's controls.

The Company also uses two financial institutions for cash management for all accounts and for processing of ACH transactions, a property management firm to manage physical access to buildings and office suites, and two Data Centers to host and support the Millennium 3 application. The Description in Section III includes only the controls and related control objectives of the Company and excludes the control objectives and related controls of the third-party financial institutions, the property management firm, and the Data Centers. Our examination did not extend to controls of these subservice organizations.

In Section II of this report, the Company 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. The Company is responsible for preparing the Description and for the assertion, including the completeness, accuracy, and method of presentation of the Description and the 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,

This report, including the description of controls in Section IV of this report, is intended solely for the information and use of the Company, user entities of the Company's System during some or all of the Specified Period, and the independent auditors of such user entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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and designing, implementing, and documenting controls to achieve the related control objectives stated in the Description.

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

An examination of a description of a service organization's system and the suitability of the design and operating effectiveness of the service organization's 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 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 Company and described in Sections II and III of this report. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Because of their nature, controls at the Company 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 the Company may become inadequate or fail.

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

- A. The Description fairly presents the System that was designed and implemented throughout the Specified Period.

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- 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 Specified Period to achieve those control objectives, if user entities applied the complementary user entity controls contemplated in the design of the Company’s controls throughout the Specified Period, and if the subservice organizations (Evolution1 and Benaissance) applied the controls contemplated in the design of the Company’s controls throughout the Specified Period.
- 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 Specified Period and the subservice organizations (Evolution1 and Benaissance) applied the complementary controls contemplated in the design of the Company’s controls throughout the Specified Period.

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

This report, including the description of tests of controls and results thereof in Section IV of this report, is intended solely for the information and use of the Company, user entities of the Company’s System during some or all of the Specified Period, 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 the user entities’ financial statements. This report is not intended to be and should not be used by anyone other than these specified parties.

We do not express an opinion or any other form of assurance on the information labeled “Management’s Response” in Section IV.



Charlotte, North Carolina
September 8, 2014



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II. MPAY, Inc.’s Assertion

We have prepared the description of MPAY, Inc.’s (the “Company”) Human Capital Management Application Development and Processing Services (the “System”) for user entities of the System (“User Entities”) during some or all of the period July 1, 2013 to June 30, 2014 (“Specified Period”), 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 the User Entities’ financial statements. We confirm, to the best of our knowledge and belief, that:

- A. The description fairly presents the System made available to User Entities of the System during some or all of the Specified Period for processing their transactions. The Company uses two software providers, one which maintains access to systems used to support COBRA administration (Benaissance) and one which maintains access to systems used to support flexible benefit plan administration processing (Evolution1). The Company also uses two financial institutions for cash management for all accounts and for processing of ACH transactions, a property management firm to manage physical access to buildings and office suites, and two Data Centers to host and support the Millennium 3 application. The description in Section III includes only the control objectives and related controls of the Company and excludes the control objectives and related controls of the two software providers, the two financial institutions, the property management firm, and the two Data Centers. The criteria we used in making this assertion were that the description:
 - 1. Presents how the System made available to User Entities of the System was designed and implemented to process relevant transactions, including:
 - a. The classes of transactions processed;
 - b. The procedures, within both automated and manual systems, by which those transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports presented to User Entities of the System;

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- c. 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 presented to User Entities of the System;
 - d. How the System captures and addresses significant events and conditions, other than transactions;
 - e. The process used to prepare reports or other information provided to User Entities of the System;
 - f. Specified control objectives and controls designed to achieve those objectives; and
 - g. Other aspects of our control environment, risk assessment process, information and communication systems (including the related business processes), control activities, and monitoring controls that are relevant to processing and reporting transactions of User Entities of the System.
2. 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 the independent financial statement auditors of those User Entities, 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.
- B. The description includes relevant details of changes to the Company's System during the Specified Period.
- C. The controls related to the control objectives stated in the description were suitably designed and operated effectively throughout the Specified Period to achieve those control objectives, if the complementary user entity controls contemplated in the design of the Company's controls were applied and operating effectively and the subservice organizations (Evolution1 and Benaissance) applied the controls contemplated in the design of the Company's controls and these controls were operating effectively. The criteria we used in making this assertion were that:
1. The risks that threaten the achievement of the control objectives stated in the description have been identified by the Company;
 2. The controls identified in the description would, if operating as described, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved; and
 3. The controls were consistently applied as designed, including whether manual controls were applied by individuals who have the appropriate competence and authority.

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III. MPAY, Inc.’s Description of its System and Controls

A. Scope and Purpose of the Report

This report describes the control structure of MPAY, Inc. (the “Company”) as it relates to its Human Capital Management Application Development and Processing Services for the period of July 1, 2013 to June 30, 2014 (the “Specified Period”). This report, including the description of controls in Section IV of this report, is intended solely for the information and use of the Company, user entities of the Company’s System during some or all of the Specified Period, and the independent auditors of such user entities. This report is not intended to be and should not be used by anyone other than these specified parties.

This report incorporates a service organization’s controls over the services it provides to user entities when those controls are likely to be relevant to user entities’ internal controls over financial reporting. In April 2010, the Accounting Standards Board issued SSAE No. 16, Reporting on Controls at a Service Organization, which has been codified in the attestation standards as AT section 801. These reports are now commonly referred to as SOC 1 reports. As this report is intended to only address those controls that are likely to be relevant to user entities’ internal controls over financial reporting, it does not encompass all aspects of the services provided or procedures followed by the Company.

The scope of this report is limited to payroll and time and attendance application development and payroll processing services conducted at Huntersville, North Carolina; Roanoke, Virginia; Waltham, Massachusetts; and Peoria, Illinois MPAY, Inc. locations and controls governing only the review of physical access to the hosted Data Centers in Las Vegas, Nevada and Ashburn, Virginia. User organizations and their independent auditors are responsible for determining if the services provided to them by the Company are in the scope of this report.

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B. Overview of Services Provided

The Company designs, develops, and manufactures human capital management software (HCMS) such as payroll, time, and labor management; benefits administration; and associated software applications for customers located throughout the United States. Payroll services are provided through offices in North Carolina, Illinois, Massachusetts, and Virginia. MPAY serves over 60,000 employers directly and through a network of over 135 strategic partners. Strategic partners include payroll service bureaus, accounting firms, employee benefit brokers, financial institutions, and human resource outsourcing (HRO) organizations. Several employees of MPAY are members of the American Payroll Association, the Independent Payroll Providers Association, the America Institute of Certified Public Accountants (AICPA), the American Institute of Certified Public Accountants, the Virginia Society of Certified Public Accountants, the Society of Human Resource Management, the American Society for Training and Development, and The Payroll Group. MPAY's major products are its Millennium Integrated Payroll and Human Resources System (referred to as "The Millennium 3 System" or "Millennium 3"), Payentry (the Millennium web interface), and Clockentry, MPAY's time and attendance product.

The Millennium 3 System provides comprehensive payroll processing functionality including tax calculations, ACH generation, new hire reporting, General Ledger (GL) calculations, and accrual calculations and tracking. Payentry (referred to as the "Website") leverages the power of the internet to deliver a high performance, secure, and reliable website for payroll and human resource management. A hosted solution is available to service bureaus using Millennium 3. The hosted solution provides service bureaus with processing capabilities without incurring the expense of building and maintaining an IT infrastructure. MPAY also offers Clockentry, a comprehensive software solution designed to simplify timekeeping by providing a seamless integration between timekeeping and payroll. MPAY's Full Service Licensee (FSL) model allows trusted advisors to offer their customers branded payroll services through Payentry, integrated timekeeping with Clockentry, online and on-demand access to HR Professionals with HR Support Center, Pay-as-you-Go workers' compensation, and paperless solutions.

MPAY provides direct payroll services, payroll tax processing services, time and labor management, income verification services, flexible benefit administration, and COBRA administration to customers. This report covers the software development life cycle of the Millennium 3 software, the Payentry web interface, the Clockentry software, payroll processing, payroll tax administration, and benefit administration. MPAY has developed strategic alliances with certain vendors which provide other related software and services including time and attendance, workers' compensation, and benefits administration. These services and products are not included within the scope of this report.

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C. Relevant Aspects of the Overall Control Environment

A company's internal control environment reflects the overall attitude, awareness, and actions of management, the Board of Directors, and others concerning controls and the emphasis given to controls, as expressed by the Company's policies, procedures, methods, and organizational structure. MPAY, Inc. recognizes the importance of internal controls and has instituted a number of controls within the organization. Currently, the Company leverages the Committee of the Treadway Commission's ("COSO") Internal Control - 1992 Integrated Framework but is in the process of evaluating and transitioning to COSO's Internal Control - 2013 Integrated Framework.

MPAY, Inc. firmly believes in maintaining a well-trained staff capable of exceeding customers' expectations. As a result, numerous qualitative and quantitative elements are implemented and utilized throughout the organization.

These elements, which are permeated within the organization's control structure, consist of the following:

1. Control Environment and Control Activities

a. Management

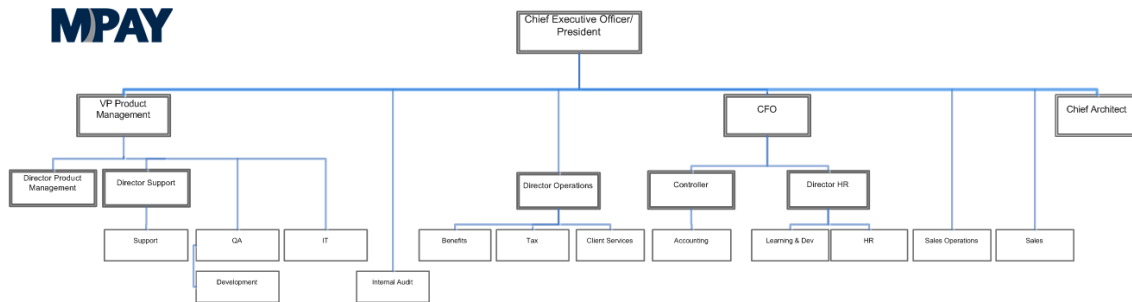
Management of the Company is responsible for directing and controlling operations and for establishing, communicating, and monitoring control policies and procedures. Management instills a philosophy that enables all employees to share in the successes and ultimate growth of the Company. The organization's management team is comprised of a well-skilled and diverse group who are ultimately responsible for establishing corporate policy and addressing all operational, financial, cultural, and social aspects of the Company. Employees are seen as vital components crucial for building and shaping a company that values high ethical standards and the promotion of industry leading products and services.

By devoting considerable resources to these efforts and deciding to pursue a SOC 1 Type II report, management indicated that information security effectiveness is a Company priority. Exposed to intense customer scrutiny, management has made a commitment to discovering and addressing any security shortcomings. This ethical attitude of critical self-assessment supports an organizational environment in which the Company can meet those commitments and satisfy customer and regulatory expectations.

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b. Organizational Structure

An entity’s organizational structure provides the framework within which its activities for achieving entity-wide objectives are planned, executed, controlled, and monitored. Significant aspects of establishing a relevant organizational structure include defining key areas of authority and responsibility as well as establishing appropriate lines of reporting. The organizational structure of MPAY is noted in the diagram below:



MPAY is organized into functional areas as described below:

Operations

Client Services: The Client Services Teams are located in Huntersville, North Carolina and Peoria, Illinois. These teams are responsible for implementation, handling all incoming payrolls, customer service, and level I technical support. Client Services analyzes and converts new customers and begins the service relationship. This process is pivotal in establishing the standards and methods of service to the customer. The teams follow an established implementation process which begins with customer setup, employee setup (if necessary), software installation (if necessary), and initial training. Checklists are utilized to help ensure that all steps within the implementation process are completed.

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The teams are also responsible for handling all incoming payrolls. Payrolls are either input by the customer and are submitted to MPAY or are keyed by MPAY personnel. For those payrolls which are input by the customer, the payroll system allows the customer to verify the accuracy of its payroll prior to transmitting it to MPAY. For those payrolls which are keyed into the application by MPAY personnel, the customer has the option of reviewing the accuracy of the data prior to processing the payroll.

The teams work with direct customers and third-party payroll service providers to help customers utilize the system in an optimal manner by providing level I support. The teams actively monitor the level I support case queue to help ensure issues are addressed timely. The teams serve as client advocates for support and provide initial troubleshooting. Metrics are established to better support the users. On-going customer service is available via telephone and Salesforce.com (CRM) from 8:30 a.m. to 7:00 p.m., Monday through Friday.

Tax: The Tax Team is located in Huntersville, North Carolina. MPAY, Inc. offers two levels of tax service, full tax and non-tax. For the full tax customers, the Tax Team submits payroll tax deposits and returns directly to the taxing authorities. While MPAY electronically submits the Employer W2 copies to the Social Security Administration for both full tax and non-tax clients, non-tax service customers are responsible for making their own tax deposits and filing the payroll tax returns in a timely manner. Non-tax customers are supplied with printed quarterly tax returns which the customer can review, sign, and submit to the taxing authorities. The Tax Team also addresses agency notices and customer inquiries about tax liabilities and deposits.

Benefits: The Benefits Team, based in Huntersville, North Carolina provides customers with third-party Administrator services for COBRA and Flexible Spending Accounts (FSAs). For COBRA, MPAY is responsible for providing the COBRA Specific Rights notice to the customers' qualified beneficiaries, enrolling participants who accept continuation, and collecting premiums from the qualified beneficiary and reimbursing them to the customer. For FSAs, MPAY provides recordkeeping, claims adjudication, and reimbursement services. These services include non-discrimination testing and the production of cafeteria plan documents.

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Software

Hosted: The Information Technology Team is responsible for both internal information systems management and hosted services management for external customer systems. The team designs, deploys, and manages all internal systems including e-mail, accounting, database, CRM, web server remote access security, LAN/WAN networking, and all associated hardware and technologies. Similarly, the team designs, deploys, and manages all customer-facing hosted solutions including Citrix Hosted Millennium 3, Payentry, Clockentry, and Payentry Web Services. In addition to systems management, the team maintains an internal IT Service Desk.

Product Development: MPAY's Product Development Team, based in Waltham, Massachusetts, is responsible for all new software applications and updates to the applications. The team maintains and enhances the current software, resolves software issues, and develops custom programs and reports requested by customers and members of MPAY's strategic alliance. Product Development is also responsible for quality control over Millennium 3 and Payentry products, Clockentry, and the release of those products to MPAY's customers.

Technical Support: The Technical Support Team (level II support) based in Huntersville, North Carolina assists MPAY users with resolving issues encountered within the day-to-day operation of their business. The team actively monitors the level II support case queue to help ensure that issues are addressed timely. The team serves as the client advocate for issues needing advanced troubleshooting or assistance from other departments. Metrics are established to better support the users.

Compliance: The Compliance Team's primary objective is to help ensure the Millennium 3 software platform complies with the tax calculation and reporting requirements defined by the various federal, state, and local taxing authorities. The team also assists users in the resolution of any tax-related situations which they encounter.

Shared Services

Internal Audit: The Internal Audit Team, based in Huntersville, North Carolina, is designed to help MPAY meet its objectives. The team is responsible for evaluating controls and for providing assurance and consulting services to all levels of staff. The team monitors internal controls and also serves as the liaison between MPAY employees and external auditors. The team reports on the effectiveness of operations while also recommending improvements and sharing ideas for leading practices.

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Accounting and Human Resources: The Accounting and Human Resources Teams, based in Roanoke, Virginia, are responsible for MPAY’s financial management and implementation and support of MPAY’s human resources policies and procedures. The teams develop and monitor MPAY’s budgets and human resources activities and report monthly on the Company’s financial condition and results of operations. The Accounting Team reconciles customer held funds on a daily basis. The Accounting Team also serves as the point of contact for customers and vendors with regard to billing and software licensing transactions.

c. Personnel

Human Resources Policies

MPAY’s human resources function administers payroll and benefits; oversees hiring, performance evaluations, and terminations; and develops the personnel policies of the Company. Operations are guided by standards of conduct regarding acceptable business practices and expected ethical, moral, and lawful behavior, as described in MPAY’s Code of Ethics. The Company’s policies are documented within the Employee Handbook which is issued to all employees and is also available on SharePoint. Written policies include a Sexual Harassment Policy; a Confidentiality, Internet, Voice-mail, and Electronic-mail Usage Policy; a Network Account Use and Access Policy; a Network Account Password Policy; and a New Personnel Hiring Policy. New employees, and existing employees transferring to new positions within the Company, are required to sign a non-competition, non-disclosure agreement. Checklists are used during the hiring process to help ensure that all internal requirements are met. These requirements include background checks and reference verifications. New employees are also required to attend new-hire orientation and to complete employment-related paperwork including a non-compete agreement, a non-disclosure agreement, and a distribution of written Company policies form.

Checklists are also used for employee terminations to help ensure that each termination is fully documented, that each employee’s system access is eliminated, and that all members of management are notified of the respective employee’s termination. Upon resignation, the employee’s capabilities are reviewed by the employee’s manager and the Human Resources Department to determine what risks, if any, are involved with allowing the employee to continue to work prior to official termination. Employees terminated for cause are escorted off the premises, and physical and systems access capabilities are immediately removed.

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In 2014, MPAY replaced the annual performance evaluations with a Catalytic Coaching methodology which focuses on providing feedback and career planning for future growth. Employees own their personal development, supervisors act as coaches who help employees with their career growth, and Human Resource professionals serve as coaching consultants. On an annual basis, employees draft a performance plan aimed at improving contributions within their current jobs and increasing their potential for other opportunities, if desired. Overall, the Company's strategic and performance-related goals are communicated periodically to MPAY's employees. Methods of communication include e-mails from management as well as Company meetings in which MPAY's management team provides updates to all employees.

2. Risk Assessment

The Company proactively identifies risks to the business through a continual ERM model. Clearly defined objectives are established throughout all levels of the Company to help ensure that a variety of risks, both internally and externally, are brought to management's attention and are addressed. Management regularly assesses the risks of potential growth or decline in business and how it may affect the organization as a whole. The Company is also fully aware of the risks attributed to its Information Technology infrastructure, such as security, network operations, and disaster recovery. Therefore, employees are trained in the latest security practices and are constantly monitoring and improving the security infrastructure of the organization. A number of other issues affecting the Company's workplace environment and corporate culture such as education and training, compensation, promotion, and other topics deemed vital are also examined on a routine basis. Risk assessments pertaining to finance activities, such as cash flows, expenses, and revenues, are routinely discussed by appropriate management personnel.

The Company's senior management actively works together to help identify changes within the Company that could significantly affect any number of issues. Internal and external audits are routinely conducted, and significant issues identified during these processes are promptly addressed by the Company. Human Resources also has an open door policy which can be utilized by all employees for reporting suspicious activities, grievances, and/or individual issues deemed significant.

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3. Monitoring

Internal controls are closely observed to help ensure that they are operating as designed. The organization has policies in place for reviewing aspects of the enterprise wide network on a periodic basis. Additionally, management holds discussions on a monthly basis to address additional controls, such as employee issues, business continuity plans, building security, network security, and all other areas or subject matters deemed vital to MPAY and its organization's business process activities. Internal Audit monitors the control environment to help ensure that controls are followed and that processes are effective and efficient. Internal Audit reports risks and variances to management on a regular basis. Management is involved in the day-to-day operations of the business and actively identifies significant variances from expectations.

4. Information and Communication

The Company believes that staying current on information regarding the Company's key performance indicators as well as industry trends and standards is the key to running a business which can effectively react to its customers' needs. The Company is therefore committed to participating in key industry activities, holding internal meetings and training, and communicating information to its stakeholders on a timely basis.

Information

The Company actively collects metrics regarding the Company's operations. The metrics are compiled into a Balanced Scorecard and are reviewed on a regular basis to identify internal trends and opportunities. Information relating directly to the Company's core business processes is collected, stored, and reported through the Company's internal SharePoint portal. Data pertaining to the Company's core operational activities resides on SharePoint, file servers, SQL Servers, and SalesForce.com. Access to these systems is strictly limited based on the information security policies described in this report.

Monitoring and review activities for business functions are performed at all times, allowing the Company to assess the business operations as a whole and to make recommendations for correcting and ultimately improving any activities. Historical data is maintained and referenced for future projects.

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Communication

The Company embraces a belief that information should flow in an open forum environment, thus allowing for a discussion on a wide range of topics and subject matter by all employees. Management believes that this process fosters a true sense and understanding of the important role that each employee plays in maintaining the security of the organization's infrastructure and the quality of internal control elements for his/her respective department. Effective communication with external parties, such as vendors, customers, and government entities, enables the Company to be proactive in addressing any issues before they become major constraints or liabilities.

The Company's Employee Handbook and related policies and documents are all designed to adequately inform employees of policies and procedures relating to the workplace environment and one's professional conduct. Each department also has documented processes and procedures pertaining to respective roles and duties and how they are to be carried out on a daily basis.

Updates and/or changes to corporate policies and any other Human Resources-related matters are promptly communicated to all employees via SharePoint. Physical documents, such as listings of providers for employee benefit plans and insurance coverage, are sent to all employees upon hire and annually during open enrollment. Any changes or modifications to these documents are handled accordingly, either by e-mail notification or the subsequent issuance of new booklets.

D. Control Objectives and Description of Controls

Management has established processes and controls for the development, maintenance, and access to payroll information systems and supporting infrastructures. The systems and procedures are detailed as follows:

Physical Access

MPAY's production systems are outsourced to two geographically dispersed Tier 1 Data Centers. The MPAY authorized access lists for the Equinix Data Center and for the Switch Data Centers are reviewed by Senior IT Management on a quarterly basis. Both Data Centers offer MPAY IT staff members a central management portal through which MPAY requests and reviews physical access to MPAY's computing resources.

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Client Services (including Payroll Processing), Tax, Benefit, and Technical Support services are based at the Company's Huntersville, North Carolina operations center. Access to the office suite and to server closets is controlled through the use of building access cards which are issued to appropriate personnel upon hire and are revoked upon termination. Proximity card readers are managed by the building's property management group. Access to the main operations floor as well as to protected areas such as network closets and printer pack-out rooms is protected by proximity card readers. All proximity access cards are requested through the IT Service Desk and must be approved by Human Resources. Upon approval by Human Resources, senior IT staff members or the IT Service Desk Manager create and physically issue the access cards. Similarly, termination or revocation of access cards is requested through the IT Service Desk and is approved by Human Resources. Personnel requesting access to protected areas require additional approval by senior management. Access to add, change, and/or disable users within the badge system is restricted to the IT Service Desk Manager, the General Manager, and the IT Service Desk Analyst. Visitors enter the Huntersville operations center through the main entrance. Visitors to the facility are required to register with the receptionist and are escorted through the facility by an employee of the Company. Access to the office suite is reviewed on a quarterly basis.

Logical Access

Access to the system is made available to appropriate users through industry-standard authentication and access controls. MPAY's corporate and production networks operate on a Microsoft 2008 Active Directory infrastructure. The Network, Millennium 3, 1Cloud, COBRApoin, and supporting database access is limited to users with a valid user ID and password. Password policies are controlled through the Network's group policy settings and are applied across the infrastructure through the use of isolated organizational units. Network and Millennium 3 application password configurations require the following:

- Passwords must contain a minimum number of eight characters;
- Passwords expire every 90 days;
- Passwords cannot be reused for 24 iterations;
- Users are locked out of the system for a number of minutes after six unsuccessful logon attempts;
- Complexity has been enabled for all passwords;
- Users are locked via screen lock after a period of 15 minutes of inactivity; and
- Passwords are encrypted.

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New employee requests for Network, Millennium 3, 1Cloud, COBRApoin, and supporting database access are documented, reviewed, and approved by Human Resources before access is granted. Requests for modifications of existing system/application access are documented, reviewed, and approved by the supervising manager before access is modified. System administrators grant least privilege access to network resources by default. Access to protected resources is requested by HR or the departmental manager. Requests for modifications of existing system/application access are documented, reviewed, and approved by the supervising manager before access is granted. Employee terminations are communicated to IT by Human Resources, and access is terminated within two business days of the termination.

MPAY manages access to the system using a least privileges methodology. As a result, direct access to production databases and structures has been disabled through SQL and Windows permissions. Only SQL Administrators have direct access to the SQL databases and structures. The ability to change data and table structures on the production databases is limited to appropriate personnel. This methodology extends throughout the enterprise by restricting Administrative access to all production systems, networks, and devices to appropriate IT staff. Initial default accounts and passwords for the Network, Millennium 3, 1Cloud, COBRApoin, and supporting databases have been changed or disabled. This process includes the typical Windows guest and Administrator accounts. Administrative access to the Network, Millennium 3, 1Cloud, COBRApoin, and supporting databases is restricted to appropriate individuals based upon their job functions.

From time to time, developer assistance is needed to troubleshoot production issues. In these cases, temporary access to the production environment for MPAY Software Engineers is approved by Senior IT Management. Access is revoked after 10 business days. A quarterly review of Active Directory accounts and a semi-annual review of Millennium 3, 1Cloud, COBRApoin accounts is conducted by a member of IT to verify that access to key systems is appropriate. In addition to operational network and application access reviews, security event logs are reviewed on a quarterly basis to identify potentially significant security events.

Each physical location including both Data Centers and the Huntersville Operations Center is protected by several layers of network security. Edge routers are hardened and configured with restrictive access control lists, followed by Cisco ASA high availability firewalls, and finally each network boundary is inspected by Cisco intrusion detection and prevention devices. Allow any rules are not permitted within firewall configurations to restrict access based on the least privilege principle.

Virus protection software is used on all client desktops and servers, except production Linux and SQL servers, and incoming external e-mails are scanned for viruses and spam. Anti-virus software updates are automatically pushed onto the servers and client desktops. Group policy settings help ensure the enforcement of endpoint protection software updates.

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Infrastructure Change Management

A formal change management program is in place and reduces the risk of infrastructure and logical access changes to the system. All hardware, software, and logical access changes are subject to MPAY's change management procedures and are required to be approved by the Senior Enterprise Systems Administrator or IT Management prior to implementation. All infrastructure changes, including patches, are documented using a change ticketing system. All infrastructure changes, including patches, require Enterprise Systems Administrator or IT Management approval prior to implementation. On a monthly basis, Senior IT staff members review and evaluate the latest versions of Windows patches available to determine whether MPAY's server's Operating Systems are required to be updated. Patches deemed critical by Senior IT staff members are implemented within one month. Operating System and server changes are tested on test servers prior to deployment into the production environment.

Software Program Development

A formal System Development Life Cycle (SDLC) methodology, which has been approved by MPAY Software Development Management, has been implemented and communicated to appropriate Development personnel. Before a change can be promoted into the payroll processing application, it must enter into the development queue. For changes excluding tax Changes: The MPAY Software Change Control Board reviews update changes and application development requests prior to implementation into production. The MPAY Software Change Board, which is comprised of several senior staff members from engineering, client services, and product management, acts as gatekeepers for this queue, reviews all proposed changes, and decides which changes will be placed on the queue to be incorporated into the system and which ones will be rejected.

Once a proposed change is approved by the Change Board, it is entered into the JIRA incident tracking system. All changes are initiated, approved, and documented through the JIRA Ticketing system. This system allows MPAY management to monitor and audit the status of all changes to the system. All engineers making changes to the system are required to use the JIRA system and are not allowed to develop a change without having a tag (ticket) for that change.

The ticketing system also helps to ensure that all changes follow the development lifecycle which has been selected and approved by management. The development lifecycle controls how the work on a change is performed, and the document is available for employees via SharePoint. At MPAY, the development lifecycle is comprised of requirement gathering and approval, coding, unit testing, and code reviews, Q/A testing, release note writing, and final approvals.

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The initial stages in the development lifecycle, the requirements gathering and approval stage, are performed by a business analyst, a tax researcher, or a senior staff member. This phase consists of defining the change and providing detailed descriptions of the modifications which are required. This phase may also consist of a review of the requirements by a senior staff member to help ensure that they are complete.

The next stages, coding, unit testing, and code reviews are performed by one of two groups. The Software Engineering group makes all software code changes, and the Tax Research group makes all tax rate and form changes. Each of these groups has its own development environment which is restricted to the appropriate engineers from the group. Unit/system testing of all changes requiring system development is performed by MPAY Software Development staff members prior to QA testing. Once they have completed their testing, their work may undergo a peer review by another senior member of their group. Individuals performing programming activities are restricted to the development and test environments.

MPAY Software manages source code through the source code control system, Accurev. Programmer access is restricted to development and test environments. Access to migrate code and tax changes to the production environment is limited to appropriate personnel. It also provides full audit capabilities so that management can see what changes have been made. This system also integrates with the JIRA system to help ensure that all code changes are associated with an approved development tag.

Once the changes have been made and peer reviewed, they are reviewed by QA. QA testing of new releases is performed by the MPAY Software QA Team prior to the releases being sent to the MPAY Software Development Management for final review and approval prior to deployment into production. Changes requiring system development are applied and tested in development and testing environments which are separate from the production environment.

Once a change has been completed and tested, a technical writer produces a release note which describes the change and updates any documentation related to the changed functionality.

A new product release contains one or more completed changes. Once all of the changes associated with a release have been coded, tested, and documented, the release is sent to the Development Manager for approval. MPAY Software releases are approved by MPAY Software Development management prior to being released to clients. Release notes are approved by MPAY Software Development management prior to being made available to clients.

Once a release is produced, a Release Engineer publishes the software to the repository, and clients are notified that they can download the latest version. For MPAY Hosted licensees, the IT Team downloads the latest version to update the production databases. The IT group is separate from the software development and tax research groups.

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Backup and Recovery

Data resiliency and recoverability is accomplished utilizing several processes. The backup system is configured to back up production data for key MPAY systems as follows:

- Hosted Millennium 3 Databases - 15 minutes or less;
- MPAY Services - 15 minutes or less;
- Pay entry databases - 60 minutes or less; and
- Timeforce databases - 30 minutes or less.

Production databases in the Las Vegas Data Center are backed up with a 15 minute recovery point objective using native SQL 2008 R2 compressed online backups through custom maintenance scripts.

The results of backup processing are reviewed on a daily basis for any exceptions. Exceptions are investigated and resolved as necessary. MPAY uses a full chain of custody vaulting and off-site transfer service through Iron Mountain. Production data is replicated to an off-site location on a weekly basis. Vaulted data is encrypted. On at least a weekly basis, MPAY personnel reconcile the replication report from a third party to the backup data released for pickup to verify that all backup data was accounted for. Both the backup system and media are restricted to appropriate system Administrators. The MPAY authorized access lists for the Equinix Data Center and for the Switch Data Centers are reviewed by Senior IT Management on a quarterly basis. Backup data is restored and tested on a semi-annual basis.

Payroll New and Takeover Client Setup and Conversion

New payroll customers are set up throughout the year. A payroll setup kit is created in salesforce. The setup kit must include the 8655 form (if tax services will be provided), the Payroll Servicing Agreement, and the tax ID verification (proof of federal ID) to verify that data collected for new client setup is complete. These documents are scanned and attached to the payroll setup kit in salesforce. The MPAY Sales Representative or Full Service Licensee submits the setup kit for approval. MPAY Sales Support receives an e-mail notification that a new setup kit is ready for review. A Sales Support team member reviews the setup kit to help ensure that all requirements are met. If approved, a company number is assigned and a salesforce workflow is sent to the appropriate employee who implements the company/client within Millennium 3. If the setup kit is rejected, the Sales Representative or Full Service Licensee is notified by e-mail of the reason for the rejection. The Sales Representative or Full Service Licensee corrects the situation and resubmits the setup kit for approval until all requirements are met.

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Upon receipt of a new payroll setup kit workflow, a Client Services Team member starts by creating a company shell by using a conversion tool with Millennium 3 to populate basic company information. Detailed information specific to the new customer is imported via an Implementation Helper program. The team member continues the setup process by following a checklist to go through each of the tabs on the Master Company Setup screen to verify that all fields are populated accurately. If the new customer is direct or is the customer of a Standard Full Service Licensee (FSL), the team member keys the employee and year to date wage information into Millennium 3. A Payroll Service Team member balances Year-to-Date (YTD) wages entered in the Millennium 3 system to reports provided by the client to help ensure that client information has been entered into the system completely and accurately. If the year-to-date wages balance, the payroll is submitted for processing. At this point, an audit is performed by a different Payroll Team member to help ensure that client information has been entered into the system completely and accurately. If the new customer is a client of a FSL, the team member adds the company's shell in Millennium 3 and then notifies the FSL when it is ready. The FSL keys the employees and YTD wages into Millennium 3. Once they have balanced the Pre-Process Register back to the reports from the previous provider, they notify the Client Services Team member that the new customer's year-to-date payroll entries balance. The team member reviews the setup to help ensure that all information is complete and accurate and then submits the first payroll for processing.

COBRA and FSA New Customer Setup and Conversion

New COBRA and FSA customers are also set up periodically throughout the year. For each new customer, a COBRA or FSA new client setup kit is created within Salesforce and is completed for the client, and an Administrative Services Agreement is established and is signed by the client. The setup kit is then submitted by the Salesperson which kicks off a workflow that notifies Sales Support that the order is ready for processing. Sales Support verifies that all of the necessary documents have been received and kicks off a workflow which notifies the Benefits Team that the new order is ready to be set up. The Benefits Team then accepts the workflow.

For new FSA customers, information in the setup kit is entered into the system by the Benefits Team and is reviewed by management to verify that the kits have been set up in the system completely and accurately. If the customer is a FSA takeover plan customer, the Account Balance Report is generated by MPAY Services and is compared to the Previous Provider Report to verify that the setup is complete and accurate. For new COBRA customers, information in the setup kit is entered into the system by the Benefits Team and is reviewed by management to verify that the kits have been setup in the system completely and accurately.

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Transmission of Payroll Data

Payroll data is transmitted to MPAY Services through two distinct mechanisms. The first mechanism is via the Payentry website. Customers enter payroll data into the Payentry web application. The public key used to generate the SSL certificate utilizes a 2048 bit RSA key to secure the transmitted data between the client and MPAY. The second mechanism is directly through the Millennium 3 client application using its secure synchronization transmission. Data transferred by MPAY's data transmission system utilizes 3DES encryption and is then transmitted to MPAY's Millennium Synchronization Server. Once the data is securely transmitted to the Synchronization Server, it is then merged into MPAY's Millennium 3 database.

FSA Claims Processing

Prior to the first claim being processed, Next Steps documents are sent to new clients to inform them of the claims process including how to request reimbursement for claims. Debit card claims are automatically imported into 1Cloud and do not need to be entered by the participant or Benefits Team. Employees can file paper claims through the participant portal or via mail, e-mail, or fax. The claims go directly to the Benefits Department. For paper claims, prior to payment, claims are reviewed and approved by the Benefits Administrator to verify that the claim totals are substantiated by receipts. If all of the necessary information is included with the claim, it is approved via the portal or the paper claim is entered into 1Cloud, and the reimbursement is processed. If information is missing, the team member requests the necessary documentation via e-mail, telephone, or mail. When substantiation is received, the claim is approved in 1Cloud, and the reimbursement is processed.

Employees can choose to use their FSA debit cards to pay for approved expenses. If the employee uses the debit card and an IRS approved Merchant Category Code is attached to the expense, no additional substantiation is required. For other purchases, participants are sent notifications that substantiation is required via e-mail. If not received, electronic reminder notifications are sent after 3, 10, and 20 business days. For debit card claims, the system is configured to automatically flag claims that have not been substantiated for over 30 days. If a claim remains unsubstantiated after 30 days, the employee is sent notification indicating that if substantiation is not received within 15 days, the claim will be denied. Unsubstantiated debit card claims are voided, the employee's account balance is restored, and, if the account is funded by MPAY, the amount of the claim is debited from the employer's account within 90 days from the date of the claim.

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Payroll Scheduling and Processing

Payroll Processing Calendars are auto-generated by the system based on payment frequency, as determined through client implementation. Scheduling reports are programmed to reflect payroll packages to be processed based on the dates in each client's calendar. Each calendar contains twelve months of unprocessed check dates. For a small group of customers, the Client Services Team keys the payroll information rather than receiving it electronically. For clients who do not opt-out and their payroll data is entered and processed by MPAY, a pre-process register is sent to the client for review and confirmation prior to each payroll cycle being processed.

Every time a payroll is processed, the calendar auto-generates a new check date 12 months in the future. To process payroll, a batch must be opened, information must be keyed into the batch for each employee, and the payroll must be closed and submitted for processing. A series of jobs are kicked off by submitting the payroll. At times, a job can error out and prevent the rest of the payroll from completing. The job queue is monitored by a Client Services Team member throughout the day to help ensure that errors which impact payroll processing are researched and resolved. To help ensure that all direct client payrolls that are scheduled to be delivered from an MPAY office are processed, a scheduling report is run from Millennium 3 several times throughout the day. This report lists direct client payrolls which are scheduled but have not yet processed. The job queue in Millennium 3 is systematically programmed so that any errors which impact payroll processing must be cleared and resolved prior to payroll processing. Direct customers with outstanding payrolls are contacted via telephone or e-mail to determine if the payroll will be submitted. As the payrolls delivered from an MPAY office process throughout the day, the checks are printed in a secure room. A Client Services Team member runs the checks through a pressure sealer which provides a check count. Following that process, a Payroll Service Team member verifies that the total number of checks listed on the Packout Report matches the check count on the stuffing/sealing machine. The reports, checks, and vouchers are stuffed in either a United Parcel Service (UPS) envelope or customer envelope for pick up. For Peoria clients, a payroll package will only be released for client pickup to the client's authorized employee or agent if the authorized employee or agent signs the package to evidence receipt. For UPS customers, an End of Day Processed Payrolls Report is run once all packout for the day is complete. If payroll packages are shipped from an MPAY Office, the Payroll Service Team reviews the scheduling report and contacts direct clients who have not processed their scheduled payroll on or before the check date, unless previous arrangements have been made. Each business day, an End-of-Day Processed Payroll Report (listing clients to be processed for the day) is printed and is reviewed by the Customer Service Representative (CSR). A Payroll Service Team performs a peer review to verify that all processed payroll packages scheduled to be shipped from an MPAY office are complete and accurate.

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Payroll Tax Reporting and Processing

At the beginning of the month following the quarter end month, a Tax Team member creates a checklist of customers and payroll tax returns which need to be filed on the full tax customers' behalf. The checklist is based on the Quarter End – Filings Check Off query generated from Millennium 3. These checklists are utilized to help ensure that all quarterly and annual tax returns are filed to the appropriate taxing authority and within established deadlines.

On a quarterly basis, the system is programmed to perform a series of audits on each client verifying the following information for accuracy and completeness:

- Taxable wages,
- Tax liabilities, and
- Related tax deposits.

Any issues identified are researched and resolved by the Tax Unit prior to the processing of the quarterly tax returns. Finally, electronic files are generated by tax code for most agencies; however, some agencies require paper copies. Paper copies of filing returns are printed by tax code, and electronic copies are generated by tax code. For payments being made by paper check, the checks are printed from the payments tab and are matched with the filing paper copies of the returns. The Deposit by Due Date Report is generated from Millennium 3 and is reconciled to the ACH Warehouse and paper checks. The ACH file is then generated and is transmitted to the appropriate ACH processor. The paper copies of the returns and checks are checked off and shipped via certified mail or UPS to the appropriate agency by the due date of the return. The electronic files are uploaded to the appropriate agencies and are also checked off by the due date of the return.

Transmission of Payments

Funds are sent to and from MPAY's bank accounts when tax payments, payrolls, and FSA claims are processed. The vast majority of transactions are generated via ACH; however, some payments require paper checks.

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Tax Payments

During the implementation process or whenever customers enter new taxing jurisdictions, tax deposit frequencies are set up at the company level. Tax payments are systematically calculated based on tax tables and client deposit frequencies. Once the last payroll within the tax deposit period is processed, Millennium 3 automatically generates a tax deposit with a due date based on the customer's setup. Each business day, a Deposit by Due Date Report is generated from Millennium 3 and is reconciled to the ACH and check warehouses to verify that payments are scheduled and paid by the established payment due date. Additionally, on a daily basis, an Accounting Team Member reviews exception reporting to identify any client tax liability that does not reconcile to tax tables. Exceptions greater than \$1.00 are researched and resolved. Once balanced, the ACH file is created and is transmitted to the appropriate ACH processor. Coupons are created and are matched with the tax checks. The checks are then mailed to the appropriate taxing authority by the due date.

Payrolls

Payrolls are input into Millennium 3 either by the customer or by a member of the Client Services Team. Payroll information is entered into an open batch for the appropriate check date. A Pre-process Register is available to balance the payroll information to the source document. The system is programmed such that checks can only be generated to pay against valid payroll files approved by clients. Once the batch is processed, payroll reports, checks, and vouchers which are delivered by MPAY are printed to a printer in a room with access limited to authorized personnel where they remain until picked up by UPS or the customer.

For Payroll and FSA only, positive pay is established to identify and report payment exceptions including erroneous, unauthorized, and/or fraudulent payments. Millennium 3 provides the service bureau with the ability to create a manual ACH transaction outside of a payroll batch. Access to create ACH transactions is restricted to appropriate personnel. Access to transmit ACH transactions to the bank is also restricted to appropriate personnel. Access to create ACH batches to be sent to the ACH processor is also limited to authorized individuals. The bank ACH system requires confirmation of all ACH transactions. Each business day, a cash reconciliation is performed to verify payments transmitted accurately.

Millennium 3 also provides the service bureau with the ability to create manual agency checks outside the payroll batch. Access to make changes to the manual Miscellaneous Checks screen and access to approve the check print request is limited to authorized personnel via security within Millennium 3. In addition, access to checks, vouchers, and reports awaiting UPS or customer pickup is limited to appropriate personnel.

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Reconciliation of Customer Accounts

Reconciliation is a crucial piece of payroll processing and is used to maintain the financial integrity of the Company. By reconciling accounts each business day, MPAY helps to ensure that customer funds and liabilities are handled appropriately. MPAY's reconciliation process essentially monitors and accounts for each dollar which is transacted through the bank accounts used for payroll and benefits processing.

Each business day, MPAY utilizes online banking to reconcile customer accounts. To gather all of the banking transactions which occurred the previous day, transactions are downloaded from the banks' websites in a BAI format. Each business day, bank records are imported into Millennium 3 which is programmed to systematically perform a reconciliation of transactions posted by the bank to transactions requested by MPAY. Non-reconciling items are researched and resolved. Three criteria are used to match items: the effective date, the company code, and the dollar amount. If these three criteria are met for a transaction, the bank transaction is matched to the journal entry to indicate that the item has cleared the bank. Transactions not matched through the bank file import are researched. If the transaction is valid, a manual journal entry is posted and is cleared within Millennium 3. Invalid transactions are rejected.

An Accounting Team member also uses exception reporting to help ensure that MPAY is holding the proper amount of third-party funds for each customer. Predefined queries are run against the database to gather exception information. Internal control reports which are run each business day are as follows:

- ***Aged Uncleared Items*** - This report identifies any items which should have cleared but have not. These items are either resolved or are identified as reconciling items. Each business day, an Accounting Team member reviews the client aging reports to verify that requested transactions are posted to the bank. Unposted and uncleared items are researched and resolved.
- ***Accounts Receivable*** - This report compares the Accounts Receivable detail in Millennium 3's Service Bureau General Ledger to the items within the ACH Warehouse. Each business day, an Accounting Team member compares any receivables from the General Ledger Balance Sheet to the ACH warehouse to verify that receivables are valid.
- ***Tax Liability vs. Tax Ledger*** - This report compares the Service Bureau General Ledger to the Tax Tables within Millennium 3 down to the individual customer and the associated liability. Each business day, an Accounting Team member reviews exception reporting to identify any client tax liabilities that do not reconcile to the tax tables. Exceptions greater than \$1.00 are researched and resolved.

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- ***GL3 Comparison*** - This report shows any agencies which are on a company's balance sheet but are not set up in its agency list within Millennium 3. Each business day, an Accounting Team member reviews exception reporting to verify that all liabilities include a GL3 designation and mapping them to a valid payee. Exceptions greater than \$1.00 are researched and resolved.
- ***Negative Liabilities*** - This report shows any liability which is negative and on a customer's balance sheet. Each business day and once all liabilities are paid, an Accounting Team member reviews exception reporting to verify that no single balance is negative, thereby, helping to ensure that all payments were accurately made. Exceptions greater than \$1.00 and negative liabilities are reviewed, and a determination is made for resolution.
- ***Suspense Balances*** - This report verifies that assets equal liabilities for each customer. Each business day, an Accounting Team member reviews any suspense balances to verify that assets equal liabilities for each client. Exceptions greater than \$1.00 are researched and resolved.
- ***Settlement Account Reconciliation*** - MPAY utilizes two settlement accounts that all transactions flow through. Returned ACH items are also processed through these accounts. Each business day, an Accounting Team member reviews the Settlement Account reconciliation to verify that aggregate balances net to \$0 and that all returned items have been accounted for. Exceptions greater than \$1.00 are researched and resolved.
- ***Bank Balance Reconciliation*** - Each business day, an Accounting Team member reconciles the bank balances for the payroll accounts to the balances within Millennium 3. Exceptions greater than \$1.00 are researched and resolved.
- ***FSA balances*** - Millennium 3 is used as the General Ledger system for funds processed through 1Cloud. Each business day, the FSA bank account balances are reconciled to the FSA balances within Millennium 3. On a monthly basis, the FSA balances within Millennium 3 are reconciled to 1Cloud, the FSA administration software. Exceptions greater than \$1.00 are researched and resolved. Monthly, the Account Balance Report from 1Cloud is compared to the customer's Millennium 3 balance sheet to help ensure that the balances from each system reconcile. Exceptions are either resolved or are identified as reconciling items.
- ***COBRA balances*** - Each business day, an Accounting Team member reconciles the COBRA bank account balances to the balances within COBRApoint, the COBRA administration software. Exceptions greater than \$1.00 are researched and resolved.

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Reconciling items identified through the reconciliation process are posted to SharePoint for resolution. The individual responsible (a Client Services, Tax, or Benefits Team member) for resolving the reconciling items performs the necessary steps to obtain a resolution and then marks the item as complete. An Accounting Team member verifies that resolution was obtained and then removes the item from the list of outstanding reconciling items. On at least a monthly basis, a secondary person, independent of the daily reconciliation person, performs the account reconciliations to verify accuracy. Exceptions greater than \$1.00 are researched and resolved.

Supervision and Control

MPAY maintains an Employee Handbook which outlines key business practices and employee responsibilities. During the recruiting process, background checks are ordered for job candidates prior to an offer being extended to the candidate. New employees are required to sign-off on a form indicating that they have read and understand the Employee Handbook. In addition, new employees must sign a Confidentiality Agreement prior to gaining access to client payroll data.

E. Subservice Organizations

The Company utilizes subservice organizations to perform certain functions to improve operating and administrative effectiveness. The accompanying description includes only the policies, procedures, and control activities at the Company and does not include the policies, procedures, and control activities at the third-party service organizations described below. The examination by the Independent Service Auditors did not extend to the policies and procedures at these subservice organizations. The most significant subservicing organizations used by the Company are noted below.

Subservice Organization	Services Provided
Bank of America	Developed and maintained CashPro Online which provided cash management systems for all accounts and allowed access to bank statements used in performing bank/cash reconciliations. Additionally, it processed ACH transactions generated by the various systems.
Wells Fargo	Developed and maintained Commercial Electronic Office which provided the cash management systems for all accounts and allowed access to bank statements used in performing bank/cash reconciliations. Additionally, it processed ACH transactions generated by the various systems.
Spectrum Properties, Inc.	Provided property management for the Huntersville, North Carolina office.

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Subservice Organization	Services Provided
Switch	Provided the Data Center infrastructure and connectivity used to support the Millennium 3 application within the Data Center located in Las Vegas, Nevada.
Equinix	Provided the Data Center infrastructure used to support the Millennium 3 application for the Data Center located in Ashburn, Virginia.
Evolution1*	Developed and maintained 1Cloud which was used to support flexible benefit plan administration processing.
Benaissance*	Developed and maintained COBRApont which was used to support COBRA administration.

* The achievement of design for Control Objectives 2, 4 and 8 assumes that complementary controls at this subservice organization are in place and are operating effectively to support and achieve this control objective.

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F. User Control Considerations

The processes of the Company were designed with the assumption that certain controls would be implemented by user organizations. In certain situations, the application of specific controls at user organizations is necessary to achieve the control objectives included in this report.

This section highlights those internal control responsibilities that the Company believes should be present for each user organization and has considered in developing its control policies and procedures described in this report. In order for users to rely on the control structure’s policies and procedures reported on herein, each user must evaluate its own internal control structure to determine if the following procedures are in place. Furthermore, the following list of control policies and procedures is intended to address only those policies and procedures surrounding the interface and communication between the Company and each user. Accordingly, this list does not allege to be, and is not, a complete listing of the control policies and procedures that provide a basis for the assertions underlying the financial statements and control environments for the Company’s user organizations.

User Entity Control	Associated Control Objective
Prior to the first payroll run, each User Organization should perform a complete review of the setup and conversion data and immediately communicate inaccuracies to MPAY.	Control Objective 1*
Each User Organization should perform a detailed review of its first payroll checks and reports for accuracy and completeness.	Control Objective 1*
Each User Organization should review the terms of its FSA Administrative Services Agreement.	Control Objective 2*
Each User Organization should perform a quality review of the data in the FSA setup kit.	Control Objective 2*
User Organizations using MPAY’s COBRA Services should log into COBRApoin t and should view qualified beneficiary accounts.	Control Objective 2
User Organizations using MPAY’s COBRA Services should help ensure that beneficiary information entered into COBRApoin t is complete and accurate.	Control Objective 2*
User Organizations using MPAY’s COBRA Services should review the monthly Remittance Report generated from COBRApoin t.	Control Objective 2
Each User Organization should set up a payroll processing submission schedule each year and should update and communicate changes to the schedule to MPAY Services as needed.	Control Objectives 2
Each User Organization should control and limit access to PCs and terminals used to transmit data to and from MPAY.	Control Objective 3*
User Organizations using MPAY’s FSA Services should review the Next Steps document.	Control Objective 4*

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User Entity Control	Associated Control Objective
User Organizations using MPAY's FSA Services should review the Payroll Deduction Report and FSA Deductions.	Control Objective 4
Each User Organization should review the FSA IRS plan documents or restated IRS plan documents.	Control Objective 4
User Organizations are responsible for monitoring debit card claims reporting available on the employer portal for appropriateness.	Control Objective 4*
User Organizations are responsible for submitting payroll packages which are accurate and in accordance with the agreed-upon distribution frequency.	Control Objective 5*
User Organizations are responsible for establishing and communicating to MPAY a list of employees and agents authorized to pick up payroll packages.	Control Objective 5*
User Organizations are responsible for reviewing the pre-process register for accuracy of payroll data.	Control Objective 5
User Organizations should submit payroll data on a timely basis in accordance with established schedules.	Control Objective 5
User Organizations should notify or make arrangements with MPAY Services if they do not intend to process their scheduled payroll on or before the scheduled processing date.	Control Objective 5
User Organizations should review the payroll audit and output reports on a timely basis to help ensure that all payroll information has been recorded completely and accurately and that payroll amounts and computations are correct.	Control Objective 5
User Organizations are responsible for alerting MPAY if they wish to opt-out of confirming payroll accuracy prior to the payroll being processed by MPAY. For those User Organizations who opt-out, they are responsible for reviewing the payroll reports received after the payroll processes and for helping to ensure the accuracy of the data.	Control Objective 5*
User Organizations should retain payroll output for the appropriate length of time to satisfy all state, federal, and local payroll compliance agencies.	Control Objective 5
User Organizations should structure and document employee duties and responsibilities to help ensure that individuals responsible for initiating transactions are adequately supervised and that adequate segregation of duties exists between recording, reviewing, approving, and reconciling payroll transactions and any changes to payroll information.	Control Objective 5
Non-tax service User Organizations should establish processes to complete their own tax deposits and file returns in a timely manner.	Control Objective 6

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User Entity Control	Associated Control Objective
User Organizations should review the customer copies of the quarterly tax returns prior to their filing.	Control Objective 6*
User Organizations are responsible for complete and accurate customer-specified deductions and for submitting changes to the customer-specified deductions in a timely manner.	Control Objective 6*
User Organizations should immediately communicate to MPAY rate and deposit frequency changes for its individual employment-based taxes when the tax agency assigns tax rate and deposit frequency directly to the User Organization.	Control Objective 6*
User Organizations that choose to print their own payroll checks at their location should establish procedures to help ensure that checks printed are complete and accurate.	Control Objective 7
User Organizations should have controls in place to determine that payroll output, including downloaded payroll data, is restricted to authorized customer personnel.	Control Objective 7
User Organizations should communicate to MPAY any changes to the list of those authorized to pick up their payroll.	Control Objective 7*
User Organizations are responsible for providing valid, accurate, and approved payroll files.	Control Objective 7*
User Organizations should immediately notify MPAY when problems with check, remittances, or deposits to financial institutions occur.	Control Objective 7
User Organizations should help ensure that the banking information they provide to MPAY is complete and accurate and should notify MPAY of changes to banking information as they occur.	Control Objective 8*
User Organizations should help ensure that sufficient funds are available in the specified bank accounts to enable MPAY to collect and disburse funds to pay its liabilities on a timely basis.	Control Objective 8
User Organizations should perform timely reconciliation of customer bank statement activity to payrolls, COBRA, and FSA transactions processed.	Control Objective 8
User Organizations should have policies and procedures for protecting the passwords related to user IDs used to access in-scope systems and applications.	Control Objective 10
User Organizations should have procedures in place to help ensure that only appropriate personnel are authorized to approve the modification of user access for their personnel.	Control Objective 10*
User Organizations should have procedures in place to help ensure that user access to applications and infrastructure systems by User Organization personnel is regularly reviewed to confirm appropriateness of user access.	Control Objective 10

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User Entity Control	Associated Control Objective
User Organizations should have procedures in place to help ensure that timely notifications are provided to MPAY of terminated or transferred User Organization’s employees with access to the Millennium 3 application.	Control Objective 10*
User Organizations should have procedures in place to help ensure that only authorized employees have the ability to access data.	Control Objective 10
User Organizations should help ensure that their network configuration supports the limitation of access to only authorized individuals via appropriate configurations of firewalls and other network infrastructure systems.	Control Objective 10
User Organizations should control access to payroll systems to only authorized and properly trained personnel.	Control Objective 10
User Organizations should review MPAY’s testing results related to program changes.	Control Objective 12
User Organizations should perform user acceptance testing procedures for program changes prior to implementing the change into its respective environment.	Control Objective 12
User Organizations should have procedures in place to help ensure that only appropriate User Organization personnel are authorized to approve the implementation of application changes.	Control Objective 12
If a User Organization requests MPAY’s assistance with the diagnosis and resolution of a software related issue, the User Organization should monitor the activities of the MPAY Analyst when their system is accessed.	Control Objective 12

* This is a complimentary control and is required to achieve design for this particular control objective.

IV. Description of Controls Testing Provided by the Service Auditor

A. Types and Descriptions of the Tests of Operating Effectiveness

Various testing methods are used to assess the operating effectiveness of controls during the Specified Period. The table below describes the various methods which were employed in testing the operating effectiveness of controls that are in place at the Company.

Type	Description
Inquiry	<p>Inquired of appropriate personnel seeking relevant information or representation including, among other things:</p> <ul style="list-style-type: none"> • Knowledge and additional information regarding the policy or procedure; and • Corroborating evidence of the policy or procedure. <p>As inquiries were performed for substantially all controls, the test was not listed individually for every control shown in the accompanying matrices.</p>
Inspection	<p>Inspected documents and records indicating performance of the controls. This testing included, among other things:</p> <ul style="list-style-type: none"> • Inspection of reconciliations and management reports that age or quantify reconciling items to assess whether balances and reconciling items were properly monitored, controlled, and resolved on a timely basis; • Examinations of source documentation and authorizations to verify propriety of processed transactions; • Examination of documents or records for evidence of performance, such as the existence of initials or signatures; and • Inspection of systems' documentation, such as operations manuals, flow charts, and job descriptions.
Observation	Observed the application or existence of specific controls as represented.
Re-performance	<p>Re-performed the control, or processing of the application control, to help ensure the accuracy of its operation. This testing included, among other things:</p> <ul style="list-style-type: none"> • Obtaining evidence of the arithmetical accuracy and correct processing of transactions by performing independent calculations; and • Re-performing the matching of various system records by independently matching the same records and comparing reconciling items to the Company's prepared reconciliations, if applicable.

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B. Control Objectives, Control Activities, and Tests Performed

CONTROL OBJECTIVE 1			
MPAY Services’ Payroll New and Takeover Client Setup and Conversion: Controls provide reasonable assurance that new clients are set up and converted completely and accurately.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
1.	A payroll setup kit, including the 8655 Form (if tax services will be provided), the Payroll Servicing Agreement, and the tax ID verification (proof of federal ID), is created to verify that data collected for new client setup is complete.	Inspection: Inspected the corresponding Implementation Audit Checklists related to a judgmentally selected sample of new clients during the Specified Period and verified that, for each selected new client, a payroll setup kit was compiled and included the 8655 Form (if tax services were provided), the Payroll Servicing Agreement, and the tax ID verification (proof of federal ID) to verify that data collected for the new client setup was complete.	No exceptions noted.
2.	A Payroll Service Team member balances Year-to-Date (YTD) wages entered into the system (Millennium 3) to reports provided by the client to help ensure that client information has been entered into the system completely and accurately.	Inspection: Inspected the Implementation Audit Checklists related to a judgmentally selected sample of new clients with YTD wages during the Specified Period and verified that, for each selected new client, a Payroll Service Team Member balanced the YTD wages entered into the Millennium 3 system to reports provided by the client to help ensure that client information was entered into the system completely and accurately.	No exceptions noted.
3.	An audit is performed by a different Payroll Team member to help ensure that client information has been entered into the system completely and accurately.	Inspection: Inspected the Implementation Audit Checklists related to a judgmentally selected sample of new clients during the Specified Period and verified that, for each selected new client, an audit was performed by a different Payroll Team member to help ensure that client information was entered into the system completely and accurately.	No exceptions noted.

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CONTROL OBJECTIVE 2			
MPAY Services' COBRA and FSA New Client Setup and Conversion: Controls provide reasonable assurance that new clients and takeover clients are set up and converted completely and accurately and that MPAY's benefits activities for clients are executed in accordance with the Administrative Services Agreement.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
1.	An Administrative Services Agreement is established and is signed by the client.	Inspection: Inspected the Administrative Services Agreements related to a judgmentally selected sample of COBRA and FSA new and converted clients during the Specified Period and verified that the agreement for each selected client was established and signed by the client.	No exceptions noted.
2.	A COBRA or FSA new client setup kit is created and completed for each new client.	Inspection: Inspected the setup kits related to a judgmentally selected sample of COBRA and FSA new and converted clients during the Specified Period and verified that, for each selected client, a setup kit was created completed.	No exceptions noted.
3.	COBRA New Client Setup: Information in the setup kit is entered into the system by the Benefits Team and is reviewed by management to verify that each kit has been set up in the system completely and accurately.	Inspection: Inspected the setup kits related to a judgmentally selected sample of new and converted COBRA clients during the Specified Period and verified that, for each selected new COBRA client, information in the setup kit was entered into the system by the Benefits Team and was reviewed by management to verify that the kit was set up in the system completely and accurately.	No exceptions noted.

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CONTROL OBJECTIVE 2			
MPAY Services’ COBRA and FSA New Client Setup and Conversion: Controls provide reasonable assurance that new clients and takeover clients are set up and converted completely and accurately and that MPAY’s benefits activities for clients are executed in accordance with the Administrative Services Agreement.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
4.	FSA New Client Setup: Information in the setup kit is entered into the system by the Benefits Team and is reviewed by management to verify that each kit has been set up in the system completely and accurately.	Inspection: Inspected the setup kits related to a judgmentally selected sample of new FSA clients during the Specified Period and verified that, for each selected new FSA client, information in the setup kit was entered into the system by the Benefits Team and was reviewed by management to verify that the kit was set up in the system completely and accurately.	No exceptions noted
5.	For each FSA takeover plan client, the Account Balance Report is generated by MPAY Services and is compared to the Previous Provider Report to verify that the setup is complete and accurate.	Inspection: Inspected supporting documentation related to a judgmentally selected sample of FSA takeover plan clients during the Specified Period and verified that, for each selected FSA takeover plan client, the Account Balance Report was generated by MPAY Services and was compared to the Previous Provider Report to verify that the setup was complete and accurate.	No exceptions noted.

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CONTROL OBJECTIVE 3			
MPAY Services' Transmission of Payroll and Benefits Data: Controls provide reasonable assurance that user payroll and benefits data and information transmitted or otherwise delivered using MPAY's software is secured during transmissions.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
1.	The public key used to generate the SSL certificate utilizes a 2048 bit RSA key to secure the transmitted data between the client and MPAY.	Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the connection used to transmit data, obtained the associated SSL certificate, and confirmed that a 2048 bit RSA key was used to secure transmitted data between the client and MPAY. Confirmed through inquiry of the Systems Engineer that this process was in place throughout the Specified Period.	No exceptions noted.
2.	Data transferred by MPAY's data transmission system utilizes 3DES encryption.	Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the Principal Software Engineer walk through the data transmission script and process a transmission in SyncFile, MPAY's data transmission system, and confirmed that the SyncFile application utilized 3DES encryption for transmissions. Confirmed through inquiry of the Principal Engineer that this process was in place throughout the Specified Period.	No exceptions noted.

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CONTROL OBJECTIVE 4			
MPAY Services’ FSA Claims Processing: Controls provide reasonable assurance that new clients are provided with instructions for requesting claims reimbursement and that claims are not adjudicated until receipts are received.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
1.	Next Steps documents are sent to new clients to inform them of the claims process, including how to request reimbursement for claims.	Inspection: Inspected the Next Step documents related to a judgmentally selected sample of new FSA clients during the Specified Period and verified that, for each selected new FSA client, the documents sent to the client contained information about the claims process, including how to request reimbursement for claims.	No exceptions noted.
2.	For Paper Claims: Prior to payment, claims are reviewed and approved by the Benefits Administrator to verify that the claim totals are substantiated by receipts.	Inspection: Inspected receipt and corresponding claims documentation related to a judgmentally selected sample of paper claims processed during the Specified Period and verified that each selected claim was reviewed and approved by the Benefits Administrator prior to payment to verify that the claim totals were substantiated by receipts.	No exceptions noted.
3.	For Debit Card Claims: The system is configured to automatically flag claims which have not been substantiated for over 30 days.	Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the warehouse screen and confirmed that the system was configured to automatically flag debit card claims which were not substantiated for over 30 days. Confirmed through inquiry of the Principal Engineer that this process was in place throughout the Specified Period.	No exceptions noted

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CONTROL OBJECTIVE 4			
MPAY Services' FSA Claims Processing: Controls provide reasonable assurance that new clients are provided with instructions for requesting claims reimbursement and that claims are not adjudicated until receipts are received.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
4.	For Debit Card Claims: Unsubstantiated claims are voided, the employee's account balance is restored, and, if the account is funded by MPAY, the amount of the claim is debited from the employer's account within 90 days from the date of the claim.	<p>Observation/Inquiry: For a selection of dates throughout the Specified Period, observed the warehouse screen and confirmed that there were no debit card claims over 90 days due. Confirmed through inquiry of the FPC General Manager that if an account was funded by MPAY, the amount of the debit card claim was debited from the employer's account within 90 days from the date of the claim and that this process was in place throughout the Specified Period.</p>	No exceptions noted.
		<p>Inspection: Inspected the account activities related to a judgmentally selected sample of unsubstantiated debit card claims during the Specified Period and verified that, for each selected unsubstantiated debit card claim, the unsubstantiated claim was voided and the employee's account balance was restored. Noted that none of the selected claims were funded by MPAY; therefore, the Service Auditor could not test that the amount of the claim was debited from the employer's account within 90 days from the date of the claim.</p>	No exceptions noted.

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CONTROL OBJECTIVE 5			
MPAY Services’ Payroll Scheduling and Processing: Controls provide reasonable assurance that payroll data is processed by Millennium 3 and is distributed completely and to appropriate individuals in accordance with each client’s request and distribution frequencies.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
1.	Payroll Processing Calendars are auto-generated by the system based on payment frequency, as determined through client implementation. Scheduling reports are programmed to reflect payroll packages to be processed based on the dates in each client’s calendar.	Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the system configurations and confirmed that Payroll Processing Calendars were auto-generated by the system based on payment frequency and reflected payroll packages to be processed based on the dates in the related client calendar. Confirmed through inquiry of the Service Specialist that these system settings were in place throughout the Specified Period.	No exceptions noted.
		Reperformance: For a judgmentally selected client during the Specified Period, ran the scheduling report and confirmed that the payroll packages appearing on the report reconciled to those scheduled to be processed based upon the dates specified on the client’s calendar.	No exceptions noted.
2.	The job queue in Millennium 3 is systematically programmed so that any errors which impact payroll processing must be cleared and resolved prior to payroll processing.	Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the Millennium 3 stored procedures for errors which impacted payroll processing and confirmed that the job queue in Millennium 3 was systematically programmed so that any errors which impacted payroll processing must be cleared and resolved prior to payroll processing. Further, confirmed through inquiry of the Software Engineer that this process was in place throughout the Specified Period.	No exceptions noted.

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CONTROL OBJECTIVE 5			
MPAY Services’ Payroll Scheduling and Processing: Controls provide reasonable assurance that payroll data is processed by Millennium 3 and is distributed completely and to appropriate individuals in accordance with each client’s request and distribution frequencies.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
3.	A Payroll Service Team member verifies that the total number of checks listed on the Packout Report matches the check count on the stuffing/sealing machine.	Inspection: Inspected supporting documentation related to a judgmentally selected sample of Packout Reports during the Specified Period and verified that, for each selected Packout Report, a Payroll Service Team member verified that the total number of checks listed on the report matched the check count on the stuffing/sealing machine.	No exceptions noted.
4.	For Peoria clients: A payroll package is released for client pickup to the client's authorized employee or agent if the authorized employee or agent signs the package to evidence receipt.	Inspection: Inspected the Payroll Package Release Sign-off log and the list of authorized client employees related to a judgmentally selected sample of payroll packages during the Specified Period and verified that, for each selected package, the package was released to the client's authorized employee/agent and that the authorized employee/agent signed the package to evidence receipt.	No exceptions noted.
5.	For clients who do not opt-out and their payroll data is entered and processed by MPAY, a pre-process register is sent to the client for review and confirmation prior to each payroll cycle being processed.	Inspection: Inspected evidence of client review and confirmation of the pre-process register via client e-mail and/or a Salesforce Case ticket for a judgmentally selected sample of clients who did not opt-out and their payroll data was entered and processed by MPAY during the Specified Period and verified that a pre-process register was sent to each selected client for review and confirmation prior to the respective payroll being processed.	No exceptions noted.

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CONTROL OBJECTIVE 5			
MPAY Services’ Payroll Scheduling and Processing: Controls provide reasonable assurance that payroll data is processed by Millennium 3 and is distributed completely and to appropriate individuals in accordance with each client’s request and distribution frequencies.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
6.	Each business day, an End-of-Day Processed Payroll Report (listing clients to be processed for the day) is printed and is reviewed by the Customer Service Representative (CSR). A Payroll Service Team performs a peer review to verify that all processed payroll packages scheduled to be shipped from an MPAY office are complete and accurate.	Inspection: Inspected the End-of-Day Processed Payroll Reports and MPAY Services Payroll Processing Sign-off Sheets related to a judgmentally selected sample of business days during the Specified Period and verified that, on each selected date, the CSR reviewed the End-of-Day Processed Payroll Report (listing clients to be processed for the day) and the Payroll Service Team performed a peer review to verify that all processed payroll packages scheduled to be shipped from an MPAY office were complete and accurate.	No exceptions noted.
7.	If payroll packages are shipped from an MPAY Office, the Payroll Service Team reviews the Scheduling Report and contacts direct clients that have not processed their scheduled payroll on or before the check date, unless previous arrangements have been made.	Inspection: Inspected the Scheduling Reports related to a judgmentally selected sample of business days during the Specified Period and verified that, on each selected date, the Payroll Service Team reviewed the Scheduling Report and contacted direct clients that had not processed their scheduled payroll on or before the check date.	No exceptions noted.

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CONTROL OBJECTIVE 6			
MPAY Services’ Payroll Tax Reporting and Processing: Controls provide reasonable assurance that state, federal, and local tax filings are complete, accurate, and in accordance with tax filing deadlines.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
1.	<p>The system is programmed to perform a series of quarterly audits on each client verifying the following information for accuracy and completeness:</p> <ul style="list-style-type: none"> • Taxable wages, • Tax liabilities, and • Related tax deposits. <p>Any issues identified are researched and resolved by the Tax Unit prior to processing the quarterly tax returns.</p>	<p>Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the system settings with the Compliance Manager and confirmed that the system was programmed to perform a series of quarterly audits on each client verifying the following information for accuracy and completeness:</p> <ul style="list-style-type: none"> • Taxable wages, • Tax liabilities, and • Related tax deposits. <p>Further, confirmed through inquiry of the Compliance Manager that these system settings were in place throughout the Specified Period.</p>	No exceptions noted.
		<p>Inspection: Inspected evidence related to the quarterly audits for a judgmentally selected sample of clients for a judgmentally selected quarter during the Specified Period and verified that any issues identified during the selected quarterly audit were researched and resolved by the Tax Unit prior to processing the quarterly tax returns.</p>	No exceptions noted.

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CONTROL OBJECTIVE 6			
MPAY Services' Payroll Tax Reporting and Processing: Controls provide reasonable assurance that state, federal, and local tax filings are complete, accurate, and in accordance with tax filing deadlines.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
2.	Checklists are utilized to help ensure that all quarterly and annual tax returns are filed with the appropriate taxing authority and within established deadlines.	Inspection: Inspected the client checklists related to a judgmentally selected sample of clients for a judgmentally selected sample of quarters during the Specified Period and verified that, for each selected client and quarter, checklists were utilized to help ensure that all quarterly and annual tax returns were filed with the appropriate taxing authority and within established timelines.	No exceptions noted.

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CONTROL OBJECTIVE 7			
MPAY Services' Transmission of Payments: Controls provide reasonable assurance that payments are valid, are transmitted accurately, and are disbursed by appropriate individuals and that tax payments are disbursed by the established payment deadlines.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
1.	Tax payments are systematically calculated based on tax tables and client deposit frequencies.	Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the system configurations and confirmed that tax payments were systematically calculated based on tax tables and client deposit frequencies. Confirmed through inquiry of the Compliance Manager that these system configurations were in place throughout the Specified Period.	No exceptions noted.
		Reperformance: Judgmentally selected a sample tax payment during the Specified Period, obtained the calculated tax payment, the tax tables, and the client deposit frequencies, recalculated the taxes to be paid utilizing the tax table and deposit frequency, and confirmed that the system accurately calculated the tax payment based on the tax tables and client deposit frequencies.	No exceptions noted.
2.	For Tax Payments Only: Each business day, a Deposit by Due Date Report is generated from Millennium 3 and is reconciled to the ACH and check warehouses to verify that payments are scheduled and paid by the established payment due dates.	Inspection: Inspected the Deposit by Due Date Reports generated by Millennium 3 and the corresponding reconciliations related to a judgmentally selected sample of business days during the Specified Period and verified that, on each selected date, a reconciliation was performed between the Deposit by Due Date Report and the ACH and check warehouses to verify that tax payments were scheduled to be paid by the established due dates.	No exceptions noted

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CONTROL OBJECTIVE 7			
MPAY Services' Transmission of Payments: Controls provide reasonable assurance that payments are valid, are transmitted accurately, and are disbursed by appropriate individuals and that tax payments are disbursed by the established payment deadlines.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
		<p>Inspection: Inspected the ACH and check warehouse documents related to a judgmentally selected sample of business days during the Specified Period and verified that tax payments were scheduled and paid by the established payment due date on each selected date.</p>	No exceptions noted
3.	For Payroll Only: The system is programmed such that checks can only be generated to pay against valid payroll files approved by clients.	<p>Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the system configurations and confirmed that, for Payroll only, the system was programmed such that checks could only be generated to pay against valid payroll files approved by clients. Further, attempted to create a check for a Payroll file that was not approved by a client and confirmed that the system would not allow a check to be generated. Confirmed through inquiry of the Internal Audit Manager that these system configurations were in place throughout the Specified Period.</p>	No exceptions noted
4.	For Payroll and FSA Only: Positive pay is established to identify and report payment exceptions, including erroneous, unauthorized, and/or fraudulent payments.	<p>Inspection: Inspected the positive pay contracts established for the banks used for FSA and Payroll transactions during the Specified Period and verified that, for Payroll and FSA, positive pay was established to identify and report payment exceptions, including erroneous, unauthorized, and/or fraudulent payments.</p>	No exceptions noted.

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CONTROL OBJECTIVE 7			
MPAY Services’ Transmission of Payments: Controls provide reasonable assurance that payments are valid, are transmitted accurately, and are disbursed by appropriate individuals and that tax payments are disbursed by the established payment deadlines.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
5.	For Payroll and FSA Only: Access to checks, vouchers, and reports awaiting UPS or customer pickup is limited to appropriate personnel.	Observation/Inquiry: Confirmed through observation with and inquiry of the Senior Service Specialist that checks, vouchers, and reports awaiting UPS or customer pickup were stored in the Secured Packout Room located within the business suite throughout the Specified Period. Further, confirmed that access to the Secured Packout Room was limited by a key card entry system.	No exceptions noted.
		Inspection/Inquiry: Inspected the cardholder listing for the Secured Packout Room and a listing of job responsibilities during the Specified Period and verified that access to the Packout Room was limited to appropriate personnel based on job function. Further, confirmed through inquiry of the Internal Audit Manager that each employee on the listing was appropriate to have access to the Packout Room throughout the Specified Period.	No exceptions noted.
6.	For ACH Payments: Access to create ACH transactions is restricted to appropriate personnel.	Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the system configurations and confirmed that access to create ACH transactions was restricted to appropriate personnel through the use of a valid user ID and password having to be entered prior to access being granted. Confirmed through inquiry of the Internal Audit Manager that this process was in place throughout the Specified Period.	No exceptions noted.

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CONTROL OBJECTIVE 7			
MPAY Services’ Transmission of Payments: Controls provide reasonable assurance that payments are valid, are transmitted accurately, and are disbursed by appropriate individuals and that tax payments are disbursed by the established payment deadlines.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
		<p>Inspection/Inquiry: Inspected the listing of personnel with the ability to create ACH transactions during the Specified Period and verified that this access was restricted to appropriate individuals in either the Tax or Accounting Departments. Confirmed through inquiry of the Internal Audit Manager that each user was appropriate for access throughout the Specified Period.</p>	No exceptions noted.
7.	For ACH Payments: Access to transmit ACH transactions to the bank is restricted to appropriate personnel.	<p>Inspection/Inquiry: Inspected a listing of users with access to transmit ACH transactions to the banks during the Specified Period and verified that each employee on the list was appropriate for access based on job function. Further, confirmed through inquiry of the Internal Audit Manager that each employee on the list was appropriate to have access throughout the Specified Period.</p> <p>Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the system configurations and confirmed that access to transmit ACH transactions was restricted to appropriate personnel through the use of a valid user ID and password having to be entered prior to access being granted. Confirmed through inquiry of the Internal Audit Manager that this process was in place throughout the Specified Period.</p>	No exceptions noted.

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CONTROL OBJECTIVE 7			
MPAY Services’ Transmission of Payments: Controls provide reasonable assurance that payments are valid, are transmitted accurately, and are disbursed by appropriate individuals and that tax payments are disbursed by the established payment deadlines.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
8.	For ACH Payments: The bank ACH system requires confirmation of all ACH transactions.	Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the system settings and confirmed that the bank ACH system was programmed to require confirmation of all ACH transactions. Further, tried to perform an ACH transaction without confirmation and confirmed that the system would not process this transaction. Confirmed through inquiry of the Tax Analyst that these system configurations were in place throughout the Specified Period.	No exceptions noted.
9.	Each business day, a cash reconciliation is performed to verify payments transmitted accurately.	Inspection: Inspected the General Ledger Reconciliation spreadsheets related to a judgmentally selected sample of business days during the Specified Period and verified that, on each selected date, a cash reconciliation was completed to verify that payments transmitted accurately.	No exceptions noted.
10.	Each business day, an Accounting Team member reviews exception reporting to identify any client tax liabilities that do not reconcile to the tax tables. Exceptions greater than \$1.00 are researched and resolved.	Inspection: Inspected the General Ledger Reconciliation Checklists related to a judgmentally selected sample of business days during the Specified Period and verified that, on each selected date, an Accounting Team member reviewed exception reporting to identify any client tax liabilities that did not reconcile to the tax tables. Further, verified through review of supporting documentation that any exceptions greater than \$1.00 were researched and resolved.	No exceptions noted.

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CONTROL OBJECTIVE 8			
MPAY Services’ Reconciliation of Client Accounts: Controls provide reasonable assurance that cash is applied to the correct accounts and that accounts are in balance.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
1.	Each business day, bank records are imported into Millennium 3 which is programmed to systematically perform a reconciliation of transactions posted by the bank to transactions requested by MPAY. Non-reconciling items are researched and resolved.	Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the Millennium 3 system settings and confirmed that the system was programmed to systematically perform a reconciliation of transactions posted by the bank to transactions requested by MPAY. Confirmed through inquiry of the Internal Audit Manager that this process was in place throughout the Specified Period.	No exceptions noted.
		Inspection: Inspected the General Ledger Reconciliation spreadsheets related to a judgmentally selected sample of business days throughout the Specified Period and verified that, on each selected date, bank records were imported into Millennium 3, a reconciliation between transactions posted by the bank and transactions requested by MPAY was performed, and non-reconciling items were researched and resolved.	No exceptions noted.
2.	Each business day, an Accounting Team member reviews the client aging reports to verify that requested transactions were posted to the bank. Unposted and uncleared items are researched and resolved.	Inspection: Inspected the General Ledger Reconciliation Checklists related to a judgmentally selected sample of business days during the Specified Period and verified that, on each selected date, an Accounting Team member reviewed the client aging reports to verify that requested transactions were posted to the bank. Further, verified through review of supporting documentation that unposted and uncleared items were researched and resolved.	No exceptions noted.

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SOC 1 Type II Report – Human Capital Management Application Development and Processing Services

CONTROL OBJECTIVE 8			
MPAY Services’ Reconciliation of Client Accounts: Controls provide reasonable assurance that cash is applied to the correct accounts and that accounts are in balance.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
3.	Each business day, an Accounting Team member compares any receivables from the General Ledger Balance Sheet to the ACH warehouse to verify that receivables are valid.	Inspection: Inspected the General Ledger Reconciliations related to a judgmentally selected sample of business days during the Specified Period and verified that, on each selected date, an Accounting Team member compared any receivables from the General Ledger Balance Sheet to the ACH warehouse to verify that receivables were paid.	No exceptions noted.
4.	Each business day, an Accounting Team member reviews exception reporting to identify any client tax liabilities that did not reconcile to the tax tables. Exceptions greater than \$1.00 are researched and resolved.	Inspection: Inspected the General Ledger Reconciliation Checklists related to a judgmentally selected sample of business days during the Specified Period and verified that, on each selected date, an Accounting Team member reviewed exception reporting to identify any client tax liabilities that did not reconcile to the tax tables. Further, verified through review of supporting documentation that any exceptions greater than \$1.00 were researched and resolved.	No exceptions noted.
5.	Each business day, an Accounting Team member reviews exception reporting to verify that all liabilities have a GL3 designation mapping them to a valid payee. Exceptions greater than \$1.00 are researched and resolved.	Inspection: Inspected the General Ledger Reconciliation Checklists related to a judgmentally selected sample of business days during the Specified Period and verified that, on each selected date, an Accounting Team member reviewed exception reporting to verify that all liabilities had a GL3 designation which mapped them to a valid payee. Further, verified through review of supporting documentation that any exceptions greater than \$1.00 were researched and resolved.	No exception noted.

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SOC 1 Type II Report – Human Capital Management Application Development and Processing Services

CONTROL OBJECTIVE 8			
MPAY Services’ Reconciliation of Client Accounts: Controls provide reasonable assurance that cash is applied to the correct accounts and that accounts are in balance.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
6.	Each business day, once all liabilities are paid, an Accounting Team member reviews exception reporting to verify that no single balance is negative, thereby helping to ensure that all payments were accurately made. Exceptions greater than \$1.00 and negative liabilities are reviewed, and a determination is made for resolution.	Inspection: Inspected the General Ledger Reconciliation Checklists related to a judgmentally selected sample of business days during the Specified Period and verified that, on each selected date, once all liabilities were paid, an Accounting Team member reviewed exception reporting to verify that no single balance was negative, thereby helping to ensure that all payments were accurately made. Further, verified through review of supporting documentation that exceptions greater than \$1.00 and negative liabilities were reviewed and that a determination was made for resolution.	No exceptions noted.
7.	Each business day, an Accounting Team member reviews any suspense balances to verify that assets equal liabilities for each client. Exceptions greater than \$1.00 are researched and resolved.	Inspection: Inspected the General Ledger Reconciliation Checklists related to a judgmentally selected sample of business days during the Specified Period and verified that, on each selected date, an Accounting Team member reviewed any suspense balances to verify that assets equaled liabilities for each client. Further, verified through review of supporting documentation that exceptions greater than \$1.00 were researched and resolved.	No exceptions noted.

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CONTROL OBJECTIVE 8			
MPAY Services’ Reconciliation of Client Accounts: Controls provide reasonable assurance that cash is applied to the correct accounts and that accounts are in balance.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
8.	Each business day, an Accounting Team member reviews the Settlement Account reconciliation to verify that aggregate balances net to \$0 and that all returned items have been accounted for. Exceptions greater than \$1.00 are researched and resolved.	Inspection: Inspected the General Ledger Reconciliation Checklists related to a judgmentally selected sample of business days during the Specified Period and verified that, on each selected date, an Accounting Team member reviewed the Settlement Account reconciliation to verify that aggregate balances netted to \$0 and that all returned items had been accounted for. Further, verified through review of supporting documentation that exceptions greater than \$1.00 were researched and resolved.	No exceptions noted.
9.	Each business day, an Accounting Team member reconciles the bank balances for the payroll accounts to the balances in Millennium 3. Exceptions greater than \$1.00 are researched and resolved.	Inspection: Inspected the General Ledger Reconciliation Checklists related to a judgmentally selected sample of business days during the Specified Period and verified that, on each selected date, an Accounting Team member reconciled the bank balances for the payroll accounts to the balances in Millennium 3. Further, verified through review of supporting documentation that exceptions greater than \$1.00 were researched and resolved.	No exceptions noted.

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CONTROL OBJECTIVE 8			
MPAY Services’ Reconciliation of Client Accounts: Controls provide reasonable assurance that cash is applied to the correct accounts and that accounts are in balance.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
10.	Each business day, the FSA bank account balances are reconciled to the FSA balances in Millennium 3. On a monthly basis, the FSA balances in Millennium 3 are reconciled to 1Cloud, the FSA administration software. Exceptions greater than \$1.00 are researched and resolved.	Inspection: Inspected the General Ledger Reconciliation Spreadsheets related to a judgmentally selected sample of dates throughout the Specified Period and verified that, on each selected date, an Accounting Team member reconciled the FSA bank account balances to the FSA balances in Millennium 3, verifying that all transactions on the bank statement were reported in Millennium 3. Further, verified through review of supporting documentation that discrepancies greater than \$1.00 were researched and resolved.	No exceptions noted.
		Inspection: Inspected the Flex Reconciliations related to a judgmentally selected sample of months during the Specified Period and verified that, during each selected month, an Accounting Team member reconciled the FSA balances in Millennium 3 to 1Cloud. Further, verified through review of supporting documentation that discrepancies greater than \$1.00 were researched and resolved.	No exceptions noted.

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CONTROL OBJECTIVE 8			
MPAY Services’ Reconciliation of Client Accounts: Controls provide reasonable assurance that cash is applied to the correct accounts and that accounts are in balance.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
11.	Each business day, an Accounting Team member reconciles the COBRA bank account balances to the balances in COBRApoint, the COBRA administration software. Exceptions greater than \$1.00 are researched and resolved.	Inspection: Inspected the General Ledger Reconciliation Checklists related to a judgmentally selected sample of business days during the Specified Period and verified that, on each selected date, an Accounting Team member reconciled the COBRA bank account balances to the balances in COBRApoint. Further, verified through review of supporting documentation that exceptions greater than \$1.00 were researched and resolved.	No exceptions noted.
12.	On at least a monthly basis, a secondary staff member, independent of the staff member who performed the daily reconciliation, reperforms the account reconciliations to verify accuracy. Exceptions greater than \$1.00 are researched and resolved.	Inspection: Inspected the General Ledger Reconciliations related to a judgmentally selected sample of months and verified that, during each selected month, a secondary staff member, independent of the staff member who performed the reconciliation, reperformed the account reconciliation to verify accuracy. Further, verified through review of supporting documentation that exceptions greater than \$1.00 were researched and resolved.	No exceptions noted.

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CONTROL OBJECTIVE 9			
MPAY Services’ Physical Access: Controls provide reasonable assurance that physical access to on-site computer and network equipment is restricted to appropriate individuals and that access to off-site Data Centers is monitored by MPAY.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
1.	The MPAY authorized access list for the Equinix Data Center is reviewed by Senior IT Management on a quarterly basis.	Inspection: Inspected the Equinix Data Center Access Help Desk tickets related to two judgmentally selected quarters during the Specified Period and verified that access to the Equinix Data Center was reviewed by Senior IT Management during each selected quarter.	No exceptions noted.
2.	The MPAY authorized access list for the Switch Data Center is reviewed by Senior IT Management on a quarterly basis.	Inspection: Inspected the Switch Data Center Access Help Desk tickets related to two judgmentally selected quarters during the Specified Period and verified that access to the Switch Data Center was reviewed by Senior IT Management during each selected quarter.	No exceptions noted.
3.	Access to the office suite and server closets is controlled through the use of building access cards which are issued to appropriate personnel upon hire and are revoked upon termination.	Observation/Inquiry: For a judgmental selection of days throughout the Specified Period, observed that the external office suite doors and server closets were locked at all times and required either a key or magnetic proximity card to gain access. Confirmed through inquiry of the General Manager that this process was in place throughout the Specified Period and that access cards were issued to appropriate personnel upon hire and were revoked upon termination throughout the Specified Period.	No exceptions noted.

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SOC 1 Type II Report – Human Capital Management Application Development and Processing Services

CONTROL OBJECTIVE 9			
MPAY Services’ Physical Access: Controls provide reasonable assurance that physical access to on-site computer and network equipment is restricted to appropriate individuals and that access to off-site Data Centers is monitored by MPAY.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
		<p>Inspection: Inspected a listing of employees with active access cards to the office suite and server closets during the Specified Period and verified that the list only included current MPAY employees. Additionally, compared the population of terminated employees to the listing of employees to verify that access allocated to terminated users had been removed.</p>	No exceptions noted.
4.	Visitors to the facility are required to register with the receptionist and are escorted through the facility by an employee of the Company.	<p>Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed visitors to the MPAY suite and confirmed that the visitors were required to register and sign-in with the receptionist and were escorted by an MPAY employee while on-site. Confirmed through inquiry of the General Manager that this process was in place throughout the Specified Period.</p>	No exceptions noted.
		<p>Inspection: Inspected the visitors' log related to a judgmentally selected sample of dates throughout the Specified Period and verified that visitors arriving on the selected dates were required to register with the receptionist.</p>	No exceptions noted.

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SOC 1 Type II Report – Human Capital Management Application Development and Processing Services

CONTROL OBJECTIVE 9			
MPAY Services’ Physical Access: Controls provide reasonable assurance that physical access to on-site computer and network equipment is restricted to appropriate individuals and that access to off-site Data Centers is monitored by MPAY.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
5.	Access to add, change, or disable users in the badge system is restricted to the IT Service Desk Manager, the General Manager, and the IT Service Desk Analyst.	Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed that users were required to have a valid ID and password to access the badge system. Confirmed through inquiry of the Systems Engineer that this process was in place throughout the Specified Period.	No exceptions noted
		Inspection: Inspected the listing of users with Administrative access to the badge management system during the Specified Period and verified that access was appropriately limited to the IT Service Desk Manager, the General Manager, and the IT Service Desk Analyst. Confirmed through inquiry of the Systems Engineer that each user on the listing was appropriate to have access throughout the Specified Period.	No exceptions noted
6.	Access to the office suite is reviewed on a quarterly basis.	Inspection: Inspected the Salesforce tickets related to the access review for a judgmental selection of quarters during the Specified Period and verified that, during each selected quarter, access to the MPAY office suite was reviewed by the General Manager.	No exceptions noted.

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CONTROL OBJECTIVE 10			
MPAY Services’ Logical Access: Controls provide reasonable assurance that logical access to Millennium 3, 1Cloud, COBRApoint, and supporting databases and the Network is restricted to appropriate individuals.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
1.	Network, Millennium 3, 1Cloud, COBRApoint, and supporting database access is limited to users with a valid user ID and password.	<p>Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the Enterprise Systems Engineer access the Network and applications, observed the Benefits Specialist access 1Cloud and COBRApoint, and observed the Internal Audit Manager access Millennium 3 and its supporting databases and confirmed that access was restricted to users with a valid user ID and password. Confirmed through inquiry of these parties that these system configurations were in place throughout the Specified Period.</p>	No exceptions noted.

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SOC 1 Type II Report – Human Capital Management Application Development and Processing Services

CONTROL OBJECTIVE 10			
MPAY Services’ Logical Access: Controls provide reasonable assurance that logical access to Millennium 3, 1Cloud, COBRApoin, and supporting databases and the Network is restricted to appropriate individuals.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
2.	<p>Network and Millennium 3 application password configurations require the following:</p> <ul style="list-style-type: none"> • Passwords must contain a minimum number of eight characters; • Passwords expire every 90 days; • Passwords cannot be reused for 24 iterations; • Users are locked out of the system for a number of minutes after six unsuccessful logon attempts; • Complexity has been enabled for all passwords; • Users are locked via screen lock after a period of 15 minutes of inactivity; and • Passwords are encrypted. 	<p>Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the Network and Millennium 3 application password configurations and confirmed that the Network and Millennium 3 application required passwords to meet the following parameters:</p> <ul style="list-style-type: none"> • Passwords must contain a minimum number of eight characters; • Passwords expire every 90 days; • Passwords cannot be reused for 24 iterations; • Users are locked out of the system for a number of minutes after six unsuccessful logon attempts; • Complexity has been enabled for all passwords; • Users are logged off via screen lock after a period of 15 minutes of inactivity; and • Passwords are encrypted. Confirmed through inquiry of the Systems Engineer that these password configurations were in place throughout the Specified Period. 	No exceptions noted.

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CONTROL OBJECTIVE 10			
MPAY Services’ Logical Access: Controls provide reasonable assurance that logical access to Millennium 3, 1Cloud, COBRAPoint, and supporting databases and the Network is restricted to appropriate individuals.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
3.	New employee requests for Network, Millennium 3, 1Cloud, COBRAPoint, and supporting database access are documented, reviewed, and approved by Human Resources before access is granted. Requests for modifications of existing system/application access are documented, reviewed, and approved by the supervising manager before access is modified.	Inspection: Inspected the corresponding change tickets or corresponding e-mails related to a judgmentally selected sample of new user setups and modifications of access to the Network, Millennium 3, 1Cloud, COBRAPoint, and all supporting databases during the Specified Period and verified that each selected request was documented, reviewed, and approved by either Human Resources (for new requests) or the supervising manager (for modifications) before access was granted.	No exceptions noted.
4.	Employee terminations are communicated to IT by Human Resources, and access is terminated within two business days of the employee’s termination.	Inspection: Inspected supporting documentation related to a judgmentally selected sample of terminated employees during the Specified Period and verified that, for each selected terminated employee, the termination was communicated to IT by Human Resources and access was terminated within two business days of the respective employee’s termination.	No exceptions noted.
5.	The ability to change data and table structures within the production databases is limited to appropriate personnel based on job function.	Inspection/Inquiry: Inspected the production database domain Administrative access listing and the Company's organizational chart during the Specified Period and verified that each employee on the list was appropriate for access to change data and table structures within the production databases based on job function. Further, confirmed through inquiry of the Systems Engineer that each staff member on the listing was appropriate to have access throughout the Specified Period.	No exceptions noted.

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CONTROL OBJECTIVE 10			
MPAY Services’ Logical Access: Controls provide reasonable assurance that logical access to Millennium 3, 1Cloud, COBRApont, and supporting databases and the Network is restricted to appropriate individuals.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
6.	Temporary access to the production environment for MPAY Software Engineers is approved by Senior IT Management. Access is revoked within 10 business days.	Inspection: Inspected a system-generated report of all temporary access granted to the production environment during the Specified Period and verified through inspection of the related change tickets for a judgmentally selected sample that each selected staff member's temporary access was approved by Senior IT Management and revoked within ten business days.	No exceptions noted.
7.	Initial default accounts and passwords for the Network, Millennium 3, 1Cloud, COBRApont, and supporting databases have been changed or disabled.	Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the system settings for initial default accounts and passwords for the Network, Millennium 3, 1Cloud, COBRApont, and all supporting databases and confirmed that all initial default accounts and passwords for these applications/systems had been changed and/or disabled. Confirmed through inquiry of the Systems Engineer that this process was in place throughout the Specified Period.	No exceptions noted.

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SOC 1 Type II Report – Human Capital Management Application Development and Processing Services

CONTROL OBJECTIVE 10			
MPAY Services’ Logical Access: Controls provide reasonable assurance that logical access to Millennium 3, 1Cloud, COBRApont, and supporting databases and the Network is restricted to appropriate individuals.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
8.	Administrative access to the Network, Millennium 3, 1Cloud, COBRApont, and supporting databases is restricted to appropriate individuals based upon job function.	Inspection/Inquiry: Inspected the job functions related to a judgmentally selected sample of employees with Administrative access to the Network, with Administrative access to Millennium 3, with Administrative access to 1Cloud, with Administrative access to COBRApont, and with Administrative access to the supporting databases during the Specified Period and verified that each selected employee was appropriate to have access. Further, confirmed through inquiry of the Enterprise Systems Engineer that each selected employee was appropriate to have Administrative access to the respective system/application/database throughout the Specified Period.	No exceptions noted.
9.	A quarterly review of Active Directory accounts and a semi-annual review of Millennium 3, 1Cloud, and COBRApont accounts is conducted by a member of IT to verify that access to key systems is appropriate.	Inspection: Inspected the corresponding review documentation related to a judgmentally selected sample of quarters during the Specified Period and verified that the CIO reviewed Active Directory account access during the selected quarters to verify that access was appropriate.	No exceptions noted.
		Inspection: Inspected the corresponding review documentation and verified that the Director of Operations reviewed Millennium 3, 1Cloud, and COBRApont account access during the Specified Period to verify that access was appropriate.	No exceptions noted.

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SOC 1 Type II Report – Human Capital Management Application Development and Processing Services

CONTROL OBJECTIVE 10			
MPAY Services’ Logical Access: Controls provide reasonable assurance that logical access to Millennium 3, 1Cloud, COBRApont, and supporting databases and the Network is restricted to appropriate individuals.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
10.	Security event logs are reviewed on a quarterly basis to identify potentially significant security events.	Inspection: Inspected the security event logs related to a judgmentally selected sample of quarters during the Specified Period and verified that the IT Team and the CIO performed a review of security event logs to identify potentially significant security events during each selected quarter.	No exceptions noted.
11.	Allow-any rules are not permitted within firewall configurations to restrict access based on the least privilege principle.	Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the firewall configuration settings and confirmed that allow any rules were not permitted within firewall configurations which restricted access based on the least privilege principle. Confirmed through inquiry of the Systems Engineer that these configurations were in place throughout the Specified Period.	No exceptions noted.

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SOC 1 Type II Report – Human Capital Management Application Development and Processing Services

CONTROL OBJECTIVE 10			
MPAY Services’ Logical Access: Controls provide reasonable assurance that logical access to Millennium 3, 1Cloud, COBRApoint, and supporting databases and the Network is restricted to appropriate individuals.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
12.	Virus protection software is used on all client desktops and servers, except production SQL servers, and incoming external e-mails are scanned for viruses and spam. Anti-virus software updates are automatically pushed onto the servers and client desktops.	Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the antivirus protection configuration settings and virus definition updates installed on a judgmentally selected sample of non production SQL servers and workstations and confirmed that Live Update Antivirus and Antispyware were installed on each selected server/workstation. Further, confirmed that the servers were configured to scan incoming external e-mails for viruses and spam and that anti-virus software updates were programmed to be automatically pushed onto the servers and client desktops. Further, confirmed through inquiry of the Enterprise Systems Engineer II that this process was in place throughout the Specified Period.	No exceptions noted.
		Inspection: Inspected the anti-virus and antispyware software consoles on a judgmentally selected sample of servers, except production SQL servers, and workstations during the Specified Period and verified that anti-virus and antispyware software was installed on each selected server/workstation.	No exceptions noted.

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CONTROL OBJECTIVE 11			
MPAY Services' Infrastructure Change Management: Controls provide reasonable assurance that changes to system infrastructure are documented, tested, and approved.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
1.	All infrastructure changes, including patches, are documented using a change ticketing system.	Inspection: Inspected the change tickets related to a judgmentally selected sample of infrastructure changes, including patches, implemented during the Specified Period and verified that each selected change was documented using a change ticketing system.	No exceptions noted.
2.	All infrastructure changes, including patches, require Enterprise Systems Administrator or IT Management approval prior to implementation.	Inspection: Inspected the change tickets related to a judgmentally selected sample of infrastructure changes, including patches, implemented during the Specified Period and verified that each selected change was approved by the Enterprise Systems Administrator or IT Management prior to implementation.	No exceptions noted.
3.	Operating system and server changes are tested on test servers prior to deployment into the production environment.	Inspection: Inspected the corresponding change tickets related to a judgmentally selected sample of operating system and server changes implemented during the Specified Period and verified that each of the selected changes was tested on test servers prior to deployment into the production environment.	No exceptions noted.

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CONTROL OBJECTIVE 11			
MPAY Services’ Infrastructure Change Management: Controls provide reasonable assurance that changes to system infrastructure are documented, tested, and approved.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
4.	On a monthly basis, Senior IT staff members review and evaluate the latest version of Windows patches available to determine whether MPAY’s server operating systems are required to be updated. Patches deemed critical by Senior IT staff members are implemented within one month of discovery.	Inspection: Inspected supporting documentation related to a judgmentally selected sample of months during the Specified Period and verified that, during each selected month, Senior IT staff members reviewed and evaluated the latest version of Windows patches available to determine whether MPAY’s server operations systems were required to be updated. Further, verified that any noted patches deemed critical by Senior IT staff members were implemented within one month of discovery.	No exceptions noted.

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CONTROL OBJECTIVE 12			
MPAY Services’ Software Program Development: Controls provide reasonable assurance that changes to Millennium 3 and new system developments are documented, tested, and approved prior to implementation by appropriate individuals.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
1.	A formal System Development Life Cycle (SDLC) methodology, which has been approved by MPAY Software Development Management, has been implemented and communicated to appropriate Development personnel.	Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the SDLC methodology on the Company's internal SharePoint site and confirmed that this methodology was communicated to appropriate Development personnel through this site. Confirmed through inquiry of the CIO that this methodology was posted to the internal SharePoint site throughout the Specified Period.	No exceptions noted
		Inspection: Inspected the SDLC documentation during the Specified Period and verified that it included a description of the various stages in the development process and was approved by MPAY Software Development Management during the Specified Period.	No exceptions noted
2.	Changes excluding Tax Changes: The MPAY Software Change Control Board reviews update changes and application development requests prior to implementation into production.	Inspection: Inspected the JIRA tickets related to a judgmentally selected sample of update changes and application development requests, excluding tax changes, implemented during the Specified Period and verified that each selected change was reviewed by the MPAY Software Change Control Board prior to implementation into production.	No exceptions noted.

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CONTROL OBJECTIVE 12			
MPAY Services' Software Program Development: Controls provide reasonable assurance that changes to Millennium 3 and new system developments are documented, tested, and approved prior to implementation by appropriate individuals.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
3.	All changes are initiated, approved, and documented through the JIRA ticketing system.	Inspection: Inspected the associated JIRA tickets related to a judgmentally selected sample of changes to production applications made during the Specified Period and verified that each selected change was initiated, approved, and documented within the JIRA ticketing system.	No exceptions noted.
4.	Changes requiring system development are applied and tested in development and testing environments which are separate from the production environment.	Inspection: Inspected the JIRA tickets related to a judgmentally selected sample of changes to production applications during the Specified Period and verified that each selected change was applied and tested in the development and test environment prior to promotion into production.	No exceptions noted
		Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed that the development and test environments were segregated from the production environment. Confirmed through inquiry of the Internal Audit Manager that this process was in place throughout the Specified Period.	No exceptions noted
5.	Programmer access is restricted to development and test environments.	Inspection: Inspected a listing of active members of the production environments during the Specified Period, reviewed each members' access, and verified that each staff member was restricted to access to development and test environments without having access to implement changes into production.	No exceptions noted.

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CONTROL OBJECTIVE 12			
MPAY Services’ Software Program Development: Controls provide reasonable assurance that changes to Millennium 3 and new system developments are documented, tested, and approved prior to implementation by appropriate individuals.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
6.	Access to migrate code and tax changes to the production environment is limited to appropriate personnel.	Inspection/Inquiry: Inspected the job functions of a judgmentally selected sample of employees with access to migrate code and tax changes into the production environment during the Specified Period and verified that each selected employee was appropriate to have access. Further, confirmed through inquiry of the VP of Product Management that each selected user was appropriate to have access throughout the Specified Period.	No exceptions noted.
7.	Unit/system testing of all changes requiring system development is performed by MPAY Software Development staff members prior to QA testing.	Inspection: Inspected the JIRA tickets related to a judgmentally selected sample of changes to production applications during the Specified Period and verified that each selected change was unit/system tested by the MPAY Software Development staff members prior to QA testing.	No exceptions noted.
8.	QA testing of new releases is performed by the MPAY Software QA Team prior to being sent to MPAY Software Development management for final review and approval prior to deployment into production.	Inspection: Inspected the Software Acceptance Tags created for a judgmentally selected sample of new releases to production applications implemented during the Specified Period and verified that each selected release was sent to MPAY Software Development management for final review and approval after QA testing was performed by the MPAY Software QA Team and prior to deployment into production.	No exceptions noted.

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CONTROL OBJECTIVE 12			
MPAY Services' Software Program Development: Controls provide reasonable assurance that changes to Millennium 3 and new system developments are documented, tested, and approved prior to implementation by appropriate individuals.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
9.	MPAY Software releases are approved by MPAY Software Development management prior to being released to clients.	Inspection: Inspected the Software Acceptance Tags created for a judgmentally selected sample of new releases to production applications implemented during the Specified Period and verified that each selected release was approved by MPAY Software Development management prior to being released to clients.	No exceptions noted.
10.	Release notes are approved by MPAY Software Development management prior to being made available to clients.	Inspection: Inspected the Software Acceptance Tags created for a judgmentally selected sample of new releases to production applications implemented during the Specified Period and verified that, for each selected release, release notes were approved by MPAY Software Development management prior to being made available to clients.	No exceptions noted.
11.	MPAY Software Development management manages source code through a source code control system.	Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the functionality of the source code management tool utilized by MPAY and confirmed that the tool was in place and was being utilized for source code management. Confirmed through inquiry of the VP of Product Management that source code was managed through a source code control system throughout the Specified Period.	No exceptions noted.

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SOC 1 Type II Report – Human Capital Management Application Development and Processing Services

CONTROL OBJECTIVE 13			
MPAY Services’ Backup and Recovery: Controls provide reasonable assurance that key data, Millennium 3 data, and system files hosted and maintained by MPAY are backed up, are encrypted, and are stored off site.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
1.	<p>The backup system is configured to back up production data for key MPAY systems as follows:</p> <ul style="list-style-type: none"> • Hosted Millennium 3 Databases - 15 minutes or less; • MPAY Services - 15 minutes or less; • Payentry databases - 60 minutes or less; and • Timeforce databases - 30 minutes or less. 	<p>Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the backup system settings and confirmed that backups were configured to be performed for key MPAY systems as follows:</p> <ul style="list-style-type: none"> • Hosted Millennium 3 Databases - 15 minutes or less; • MPAY Services - 15 minutes or less; • Payentry databases - 60 minutes or less; and • Timeforce databases - 30 minutes or less. <p>Confirmed through inquiry of the Enterprise Systems Engineer that this process was in place throughout the Specified Period.</p>	No exceptions noted
		<p>Inspection: Inspected the corresponding backup system configuration job histories within the backup system for a judgmentally selected sample of days during the Specified Period and verified that, on each selected date, the backup system backed up production data for key MPAY systems as noted in the Control Activity.</p>	No exceptions noted

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SOC 1 Type II Report – Human Capital Management Application Development and Processing Services

CONTROL OBJECTIVE 13			
MPAY Services' Backup and Recovery: Controls provide reasonable assurance that key data, Millennium 3 data, and system files hosted and maintained by MPAY are backed up, are encrypted, and are stored off site.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
2.	Each business day, the results of backup processing are reviewed for any exceptions. Exceptions are investigated and resolved as necessary.	Inspection/Inquiry: Inspected the Daily Task Lists related to a judgmentally selected sample of days during the Specified Period and verified that the results of backup processing were reviewed by MPAY IT personnel for any exceptions on each selected date. In addition, verified through inquiry of the Enterprise Systems Engineer and through inspection of supporting documentation that MPAY IT personnel investigated and resolved any noted exceptions.	Exception noted. The Service Auditor noted that for one out of 40 selected dates, there was no evidence of the results of backup processing being reviewed for exceptions.
3.	Production data is replicated to an off-site location on a weekly basis.	Inspection: Inspected the Inbound/Outbound Inventory Detail reports from Iron Mountain for a judgmentally selected sample of weeks during the Specified Period and verified that, during each selected week, production data was vaulted and rotated to an off-site storage location.	No exceptions noted.
4.	On an at least monthly basis, MPAY personnel reconcile the delivery reports from a third-party storage service to the backup tapes released for pickup to verify that all backup tapes are accounted for.	Inspection: Inspected the reconciliations related to a judgmentally selected sample of months during the Specified Period and verified that, during each selected month, MPAY personnel reconciled the delivery report from the third-party storage service to the backup tapes released for pickup to verify that all backup tapes were accounted for.	No exceptions noted.

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CONTROL OBJECTIVE 13			
MPAY Services' Backup and Recovery: Controls provide reasonable assurance that key data, Millennium 3 data, and system files hosted and maintained by MPAY are backed up, are encrypted, and are stored off site.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
5.	The MPAY authorized access list for the Equinix Data Center is reviewed by Senior IT Management on a quarterly basis.	Inspection: Inspected the Equinix Data Center Access Help Desk tickets related to two judgmentally selected quarters during the Specified Period and verified that access to the Equinix Data Center was reviewed by Senior IT Management during each selected quarter.	No exceptions noted.
6.	The MPAY authorized access list for the Switch Data Center is reviewed by Senior IT Management on a quarterly basis.	Inspection: Inspected the Switch Data Center Access Help Desk ticket related to two judgmentally selected quarters during the Specified Period and verified that access to the Switch Data Center was reviewed by Senior IT Management during each selected quarter.	No exceptions noted.
7.	Vaulted data is encrypted.	Observation/Inquiry: For a judgmental selection of dates throughout the Specified Period, observed the vault properties and confirmed that vaulted data was encrypted through an encryption key using 128-bit AES encryption. Additionally, confirmed through inquiry of the Enterprise Systems Engineer that vaulted data encryption was applied throughout the Specified Period.	No exceptions noted.
8.	Backup data is restored and tested on a semi-annual basis.	Inspection: Inspected the help desk ticket and verified that backup data was successfully restored on the production databases during the Specified Period.	No exceptions noted.

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CONTROL OBJECTIVE 13			
MPAY Services' Backup and Recovery: Controls provide reasonable assurance that key data, Millennium 3 data, and system files hosted and maintained by MPAY are backed up, are encrypted, and are stored off site.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
	On February 3, 2014, the Remedyforce ticket, which is used as the documented evidence that a review took place and by whom, was inadvertently deleted from the system. Management confirmed with its Service Desk personnel that the report was received. Management also confirmed with the control owners that the back up report for February 3, 2014 was reviewed and that it did not list any exceptions. Exceptions will show up on the report each day until resolved. Management also confirmed that the report on February 4, 2014 did not show any exceptions. Management will continue to monitor this process to help ensure that no exceptions are noted going forward.		

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CONTROL OBJECTIVE 14			
MPAY Services’ Supervision and Control: Controls provide reasonable assurance that senior management provides employees with direction to perform their job responsibilities and instructs employees to maintain confidentiality of all payroll information.			
CA No.	Control Activity	Tests Performed By Service Auditor	Results of Testing
1.	MPAY maintains an Employee Handbook which outlines key business practices and employee responsibilities.	Inspection: Inspected the MPAY Employee Handbook during the Specified Period and noted that it outlined key business practices and employee responsibilities.	No exceptions noted.
2.	New employees are required to sign-off on a form indicating that they have read and understand the Employee Handbook.	Inspection: Inspected the MPAY Handbook Acknowledgement Forms related to a judgmentally selected sample of new employees during the Specified Period and verified that each selected employee signed-off on the form, indicating that he/she read and understood the Employee Handbook.	No exceptions noted.
3.	New employees must sign a Confidentiality Agreement prior to gaining access to client payroll data.	Inspection: Inspected the Confidentiality Agreements related to a judgmentally selected sample of new employees during the Specified Period and verified that each selected new employee signed a Confidentiality Agreement prior to gaining access to client payroll data.	No exceptions noted.
4.	New employees are subjected to a background check prior to employment with MPAY.	Inspection: Inspected the background check documentation received by MPAY from the service provider for a judgmentally selected sample of new employees during the Specified Period and verified that a background check was completed for each selected new hire prior to employment at MPAY.	No exceptions noted.

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