

Erie Custom Computer Applications, Inc.

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

For the Period October 1, 2018 to September 30, 2019

SKM

SCHAFFNER KNIGHT MINNAUGH & CO.

Certified Public Accountants

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Erie, PA  Jamestown, NY

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Erie Custom Computer Applications, Inc.

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Description of the Payroll Processing System and the
Suitability of the Design and Operating Effectiveness of Controls**

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I. INDEPENDENT SERVICE AUDITOR'S REPORT

To the Senior Management of
Erie Custom Computer Applications, Inc.

Scope

We have examined Erie Custom Computer Applications, Inc.'s ("ECCA", the "Company") description of its payroll processing system titled, "Description of the Payroll Processing System and the Suitability of the Design and Operating Effectiveness of Controls" for processing user entities' payroll transactions throughout the period October 1, 2018, to September 30, 2019, (the "description") and the suitability of the design and operating effectiveness of controls included in the description to achieve the related control objectives stated in the description, based on the criteria identified in "ECCA's Assertion" (the "assertion"). The controls and control objectives included in the description are those that management of ECCA believes are likely to be relevant to user entities' internal control over financial reporting, and the description does not include those aspects of the payroll system that are not likely to be relevant to user entities' internal control over financial reporting.

The information included in Section V, *User Control Considerations*, is presented by management of ECCA to provide additional information and is not a part of ECCA's description of its payroll processing system made available to user entities during the period October 1, 2018, to September 30, 2019. Information about ECCA's user control considerations documented in Section V has not been subjected to the procedures applied in the examination of the description of the payroll processing system and of the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description of the payroll processing system, and, accordingly we express no opinion on it.

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

Service Organization's Responsibilities

In Section II of this report, ECCA 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. ECCA is responsible for preparing the description and 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 stated in the assertion, and designing, implementing and documenting controls that are suitably designed and operating effectively to achieve the related control objectives stated in the description.

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Service Auditor's Responsibilities

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

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether, in all material respects, based on the criteria in management's assertion, the description is fairly presented and the controls were suitably designed and operating effectively to achieve the related control objectives stated in the description throughout the period October 1, 2018, to September 30, 2019. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

An examination of a description of a service organization's system and the suitability of the design and operating effectiveness of the controls involves:

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

Inherent Limitations

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

Description of Tests of Controls

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

Opinion

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

- The description fairly presents the payroll processing system that was designed and implemented throughout the period October 1, 2018, to September 30, 2019.
- The controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period October 1, 2018, to September 30, 2019, and user entities applied the complementary controls assumed in the design of ECCA's controls throughout the period October 1, 2018, to September 30, 2019.
- The controls operate effectively to provide reasonable assurance that the control objectives stated in the description were achieved throughout the period October 1, 2018, to September 30, 2019, if user-entity controls assumed in the design of ECCA's controls operated effectively throughout the period October 1, 2018, to September 30, 2019.

Restricted Use

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 management of ECCA, user entities of ECCA's payroll processing system during some or all of the period October 1, 2018, to September 30, 2019, and their auditors who audit and report on such user entities' financial statements or internal control over financial reporting and have a sufficient understanding to consider it, along with other information, including information about controls implemented by user entities themselves, when assessing the risks of material misstatements of user entities' financial statements. This report is not intended to be, and should not be, used by anyone other than these specified parties.

Schaffner Knight Murray & Company, P.C.
Erie, Pennsylvania
January 7, 2020

II. MANAGEMENT'S ASSERTION

Erie Custom Computer Applications, Inc.'s Assertion

We have prepared the description of Erie Custom Computer Applications, Inc.'s (ECCA) payroll processing system entitled, "Description of the Payroll Processing System and the Suitability of the Design and Operating Effectiveness of Controls", for processing user entities' (the customer) payroll transactions throughout the period October 1, 2018, to September 30, 2019 (the description) for user entities of the system during some or all of the period October 1, 2018, to September 30, 2019, and their auditors who audit and report on such user entities' financial statements or internal control over financial reporting and have a sufficient understanding to consider it, along with other information, including information about controls implemented by user entities of the system themselves, when assessing the risks of material misstatements of user entities' financial statements.

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

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

1. The description fairly presents the payroll processing system made available to user entities of the system during some or all of the period October 1, 2018, to September 30, 2019, for processing their payroll transactions. The criteria we used in making this assertion were that the description:
 - a. Presents how the system made available to user entities of the system was designed and implemented to process relevant transactions, including, if applicable:
 - i. The types of services provided, including, as appropriate, the classes of transactions processed.
 - ii. The procedures, within both automated and manual systems, by which services are provided, including, as appropriate, procedures by which transactions are initiated, authorized, recorded, processed, corrected as necessary and transferred to the reports presented to user entities of the system.
 - iii. The information used in the performance of procedures including, if applicable, related accounting records, whether electronic or manual, and, supporting information involved in initiating, authorizing, recording, processing and reporting transactions; this includes the correction of incorrect information and how information is transferred to the reports and other information presented for user entities.
 - iv. How the system captures and addresses significant events and conditions, other than transactions.
 - v. The process used to prepare reports and other information for user entities.
 - vi. The specified control objectives and controls designed to achieve those objectives, including, as applicable, complementary user entity controls assumed in the design of the service organization's controls.

III. ERIE CUSTOM COMPUTER APPLICATIONS, INC. - DESCRIPTION OF OPERATIONS

ECCA is a regional payroll processing and payroll tax preparation company and a software development company. ECCA provides payroll services to small and mid-sized businesses generally located in the tri-state area from its headquarters in Erie, Pennsylvania. The Company prepares payroll for employers that have employees located in most of the fifty states. The payroll software utilized by ECCA is licensed through One Point Solutions, LLC (One Point), an affiliated entity and sub-licensed to Taslar, an affiliated entity.

CONTROL ENVIRONMENT ELEMENTS

ECCA provides its employees with the Company's philosophy on professional conduct and operating style that establishes the framework for other aspects of internal control. The control environment at ECCA involves the following areas:

- Risk Assessment and Monitoring
- Integrity and Ethics
- Organization
- Security
- Administration

RISK ASSESSMENT AND MONITORING

ECCA has an established risk assessment process to identify and manage risks that could affect the Company's ability to provide accurate and reliable professional payroll services. This process requires management to assess the risks in their respective departments and to address those risks in a weekly forum. An agenda is prepared for each meeting with standard topics as follows:

- Customer Service Issues
- Work-in-Progress
- Customer Watch List
- Lost Clients
- Payroll Operations
- Banking
- Tax Department
- Software Updates
- Open Discussion

This process identifies potential issues and provides a mechanism for implementing the necessary steps to manage those risks. It also provides the Company with a documented chronology to monitor issues.

ECCA incorporates a team approach to ensure the customer is receiving the highest level of service possible. Any customer-related issues are brought to the attention of management and are detailed in the weekly management meeting. An employee is assigned to the customer issue and actions taken are documented in a software monitoring system.

The Company utilizes On-Time, a software product used to track and manage tax notices. FreshDesk is another software tool utilized to capture and manage customer-identified issues. FreshDesk is provided to the customer through the Company's website. Each morning, the related database is monitored for new incidents and progress on old issues. Incidents are addressed at the weekly meetings and are monitored by management.

ECCA also monitors the cash component of the payroll process. Specifically, ECCA uses proprietary software known as Verifund to categorize, reconcile, and analyze payroll, bank and Electronic Federal Tax Payment System (EFTPS) transactions for all trust account activity. The software first reconciles the amounts drawn by ECCA from the employer's bank account against the amount expected to be drawn as calculated by the payroll software. This reconciliation is reviewed by a tax manager who is not in charge of the initial transfer. All customer amounts drawn are reconciled to payments made by ECCA for wages, taxes, garnishments, etc.

Verifund generates a ledger audit report detailing the automatic transactions and manual adjustments by users. The report is reviewed on a daily basis by a computer programmer and weekly by the Company President. Verifund provides two types of permissions: "Read Only" and "Read and Write." The "Read Only" access allows individuals to generate reports only. The "Read and Write" access allows the user to void, stop, and replace checks, but not manipulate the information.

Finally, ECCA provides their customers with a quarterly statement reconciling the sources and uses of the customer funds.

INTEGRITY AND ETHICS

The integrity of management and the ethical values ECCA holds to be true are demonstrated in the Company's mission statement, as follows:

I want to infuse in each of you the qualities that we need to be successful. Each one of you will be involved with our customers in some way almost daily. As a company, we take great pride in the services and products we sell and, more importantly, in the impact we have on customers and prospects because your personal contact will influence the future direction of this Company. I ask you to constantly strive to improve your own image and, in turn, the Company's image in the eyes of others, particularly our customers.

As Emerson wrote, "What lies behind us and what lies before us are tiny matters compared to what lies within us." Not to say that looking back is all bad because the farther you can see back, the farther you can see ahead. Accordingly, it is our challenge to develop the skills that lie within you to the benefit of you, yourself and ECCA.

ECCA is committed to providing their customers with the highest standard of customer service possible with its low employee turnover rate. The Company believes that this level of customer service can only be achieved by a company surrounded by dedicated, conscientious employees working in an environment that encourages a team effort towards customer satisfaction, open lines of communication and ethical business decisions.

Code of Ethics

ECCA understands that in order to provide their customers with the highest level of service, they must adhere to a code of ethics. The employees can read ECCA's ethics statement in their employee handbook. ECCA also belongs to a national payroll association. In doing so, ECCA must also adhere to their ethics policy which can be found on the association's website.

Conflict of Interest Statement

Conflict of interest exists when the employee is in a position to influence a decision or have business dealings on behalf of ECCA that might result in a personal gain for the employee or their associate. Aside from the overall tone of management, ECCA also addresses this issue in the employee handbook.

Confidentiality

All new hires review the confidentiality statement in the employee's handbook, which they are required to sign. ECCA reserves the right to request employees to sign a non-disclosure agreement as a condition of employment.

ORGANIZATION

Information Flow from Senior Management to Operational Staff

Communication between senior management and operational staff includes the use of the Company's e-mail and voice mail systems, written notices regarding policy and procedure changes, and notices posted on the Company bulletin board. Weekly meetings are held between the senior management team and management. The Company also has periodic meetings with management and the operational staff to discuss policy changes and operational issues.

Team Approach

A customer service representative is appointed as the customer's point-of-contact to facilitate the communication between the customer and the management team. ECCA encourages all customers to contact their service representative about any issues they encounter. If the issue cannot be immediately resolved, it is addressed as part of the weekly management meeting. Whenever possible, the customer service representative works directly with the other department managers to resolve the issue.

Informational Resources

ECCA subscribes to several services which provide manuals or on-line support and resources to employees as they conduct their daily responsibilities. The resources are as follows:

- ReadyPay Online User Reference Manual – These manuals provide the primary resources to Company staff for the operational software. All reference material is kept up-to-date with access via the Internet.
- CCH Online Tax Research – This research tool explains and analyzes the tax code and related law, producing approximately 700 publications in print and electronic form for accounting, legal, human resources, banking, securities, insurance, government and health care professionals.
- ReadyPay Online Input Manual – This manual is provided to each new customer who uses the ReadyPay Online Entry or PC Input system.

- Membership in the Independent Payroll Providers Association (IPPA) – The IPPA offers its member companies a buyer’s group, newsletters, networking, discussion forums, information on various products (including software), and an annual meeting.
- Membership in the American Payroll Association (APA) – The APA is an organization of payroll professionals dedicated to increasing the professional skills of its members and recognizing the payroll profession and its required specialization. The APA offers its members a computer-based training program, numerous workshops, seminars, symposiums, and conferences in order for payroll professionals to develop and maintain a high degree of skill.
- Internet access is available to each manager to assist in research.

Training

ECCA is continually training their employees through hands-on experience and specific continuing education courses. They also provide several resources and tools to enhance their knowledge and abilities.

SECURITY

Physical access to the office and data processing facility is secured by a motion detector and security breach system. The security system requires a pass coded combination, which is provided to all employees; however, only the corporate officers and certain key employees have a key to get into the locked building during off hours. The back door is locked with a deadbolt lock, which is kept unlocked from the inside during normal business hours. There is a buzzer on the half door between the back door lobby and the payroll pickup. The half door is kept locked at all times. All visitors are required to check in at the lobby for any business need or payroll pickup. Additionally, the payroll processing employees are located in an interior room of the building which is enclosed with interior windows and can only be accessed by a single point of entry.

Employees from different departments perform each of the various payroll processing functions. Access to their workstations and the software modules necessary to perform their duties is password protected to ensure security over sensitive information and transactions. No single employee has access to all payroll processing functions. However, certain employees have read-only access for areas outside of their function. This read-only access has been granted to expedite certain transactions and incident resolution.

All computers are password protected, and access to payroll processing programs is restricted to appropriate departments and employee functions. Passwords are required to be changed every sixty days. ECCA has established access controls over servers, operating systems, and programs. Certain key employees have access to the administrative passwords for the servers. In the event of an emergency, these passwords are stored in a fire rated safe, which requires a key and numerical combination to gain access.

Information Technology

The Information Technology (IT) function at ECCA is committed to the availability and integrity of ECCA systems and applications.

Servers

The Company employs sixty-six network servers at its one location in Erie, Pennsylvania. Twenty-eight of these servers are used for payroll processing, including twenty-four virtual and four physical servers. Four out of the twenty-eight servers are used for running SQL commands, which are programming code changes. A separate server operates as the primary domain controller and maintains all data storage. There is a secondary server assigned as the backup domain controller. There are two servers that provide backup to the others and two servers designated for terminal users. All other servers are used in non-payroll capacities.

All servers are set up with file server replication via Veeam software, which regularly backs up data to cloud storage. Additionally, fourteen days of backup is retained on-site and five days of data are backed up on an in-house server to guard against losses and time-consuming information retrieval.

The data center includes temperature-controlled areas, smoke and fire alarm systems, and uninterruptible power supplies. Additionally, the Company has a natural gas powered backup generator to support payroll operations in the event of a power outage.

The Company uses computers (workstations) from the same manufacturer. The equipment, peripherals, and software associated with each computer vary according to the department needs and must be approved and purchased by the IT Manager. The IT Manager approves any changes to each workstation's hardware or software.

Payroll data transmitted to ECCA by the ReadyPay Online system is encrypted and protected by a redundant firewall.

Software Installation and Updates

Taslar, an affiliated entity contracts with ECCA for all software development and support. All changes to the production application software are controlled through a formal change management process. The change management process revolves around a ticket system to capture both internal and external software issues. This ticketing system allows management to prioritize issues, track corrections, and provide key points for review and approval through the resolution process. The ticket system also provides a mechanism to for implementing software changes ranging from regulatory changes, enhancements or debugging issues to large software development initiatives.

If a change to the production application software is required, the Development Manager creates a separate project development ticket. This ticket is used to capture communications regarding the issue and remedy, monitors the project, facilitates the testing and ultimate release of the product development resolution to the production application software.

All software development releases are quality assurance tested by the IT Manager in controlled systems prior to being implemented. The IT Manager evaluates all software to be installed and utilized on a workstation-by-workstation basis. Windows installations and updates are performed on a scheduled basis by Velocity Networks and reported to the IT Manager weekly. Only necessary programs are installed on the employee computers.

An ECCA employee regularly provides updates of tax law/tax table changes to the IT manager. These updates are reviewed by the customer service representative to determine if they are applicable to ECCA's customers. If updates are deemed appropriate, the customer service representative runs the update.

Disaster Recovery Planning

A written disaster recovery plan has been developed to provide an organized approach of managing the recovery of an unplanned business interruption resulting from regional disasters.

ADMINISTRATION

Employee Manual

The employee manual is a guide of conduct for the employees hired. It also defines Company policies and the benefits available to employees. Periodic revisions are dated and forwarded to all employees to include in their employment package. Each employee is given the manual in a three-ring binder format to accommodate revisions and changes accordingly.

Published Job Descriptions

Employees have written job descriptions. Most of the key positions are held by employees with over ten years of experience. Whenever possible, employees are cross trained to overcome issues such as vacation scheduling and sick time. Additionally, formalized checklists have been drafted to provide guidance over key policies and procedures.

Hiring Practices and Performance Evaluations

Management regularly evaluates employment levels and the positions required to achieve the Company's objectives. At times, the managers will determine it necessary to incorporate new positions and hire additional employees. Prior to implementing the positions or initiating the hiring process, the potential changes are discussed during the weekly management meetings.

All potential candidates submit resumes and applications. These are reviewed by the managers and forwarded to the Company President. The President may perform up to three interviews before making the final decision. If the open positions are directly related to certain managers, those managers may be involved in the interview process.

The Company performs employee evaluations on an annual basis. The objective of the evaluation is to measure employee performance against pre-established goals and objectives.

Computer Applications

The payroll processing applications are run from personal workstations. The workstation hardware is manufactured by the same company and the workstations use Windows 10 Professional operating systems. The programs and/or segments of programs available on each workstation vary by department. The Company employs a number of IT specialists, two of whom are responsible for the day-to-day maintenance of the Company's systems.

Departments

The various aspects of ECCA's payroll operations are segmented into departments which include sales, customer service, accounting and processing, tax, human resources and administration, and information systems functions. Due to the sensitivity of the information processed by ECCA, each department has designated responsibilities and related security clearance.

DESCRIPTION OF APPLICATION PROCESSING

NEW CUSTOMER SET-UP

The sales and customer service departments work in tandem to attract new customers. Agreements are reached with customers using an established pricing schedule. The schedule identifies standard services provided by ECCA with predetermined prices outlined for each service. Each new agreement must be signed by the new customer, the ECCA sales or customer service representative, and, in certain situations, approved by an officer of ECCA.

After the Sales Agreement is signed by all parties, ECCA provides the customer with the Payroll and Tax Information Set-Up Kit ("the Kit"). The Kit serves as a tool to capture all necessary information to effectively establish a new customer in the payroll system. The Kit includes documents to capture employee information, payroll tax information, payroll information, bank account information, and third party payment information. Additional forms are provided to identify employees authorized to receive/pick-up payroll reports and payroll checks and prepare laser signatures for checks. Once completed, the Kit is returned to ECCA. Certain customer authorization tax forms are requested after the Kit is entered in the payroll system and are requested within 60 days of the first processed payroll.

Customer service personnel enter the customer information into the payroll software. The data entry personnel are responsible for entering the customer's individual employee information, which includes demographic data, salary and wage rates, deductions, and elected withholdings. Once all data has been entered, the information is returned to the customer. ECCA will prepare reports detailing key information and ask customers to review the information for any errors or inconsistencies. Any errors are communicated to the respective customer service representative. Employee information can be sent to ECCA to electronically populate the database.

METHODS OF PAYROLL INPUT

Telephone/Facsimile Entry

Customers transmit their payroll information to ECCA either by telephone, facsimile (fax), or web based applications. Generally, telephone and fax transmissions are utilized by customers with a small number of employees. The payroll data received, either by telephone or fax, is verified first using a customer-specific identification number, customer provided password, or another certain method of recognition. Once authenticated, the payroll clerk enters the payroll data provided by the customer. In order to enhance accuracy over the data entry function, ECCA employees are only permitted to receive telephone calls from the customer whose data they are entering. Customers are encouraged to utilize input worksheets as part of the payroll entry to ECCA. These worksheets are provided to the customer as part of the regular payroll input and promote efficient and effective transmission of required information.

ECCA uses control totals to ensure the accuracy of the information entered. The customer is required to disclose their control total for verification of the data entered by ECCA personnel. Once the control totals agree to the payroll data entered, the payroll is queued for processing.

Web Based System

ReadyPay Online is a web application allowing customers to directly enter payroll and employee information for submission to ECCA for processing. ReadyPay Online requires the use of a unique username, password and ECCA-issued company identification number for authentication. Verification tests, table based entries and data checks reduce customer data entry errors. The ECCA customer service representative assigns the customer user credentials that control access rights to their company data. Additional customer user accounts with defined specific rights can be assigned at the direction of the authorized contact at the respective customer location. Each ReadyPay Online customer is assigned to a Payroll Specialist. The Payroll Specialist is responsible for supporting the customer and ensuring customer needs are being met.

Customers are able to change their payroll information as often as necessary, prior to closing the pay period for transmission. Once the customer closes their pay period, all finalized payroll data, and changes to pre-existing customer or employee master file information, is encrypted and transmitted via the Internet to ECCA.

PAYROLL PROCESS

Telephone customers call ECCA through dedicated telephone lines or may be routed through the receptionist. An available data entry clerk will receive the telephone call, verify the customer, and begin to enter the payroll information. Customers are provided input templates for each pay period. These templates include fields to capture information required to process a customer's payroll for a given period. The customer is encouraged to complete the customer input worksheet and relay the information to ECCA in the format provided. The data entry clerk will enter all of the data as provided by the customer. Once it has been entered, certain subtotals (hash totals) are requested by the ECCA employee. ECCA employees will not provide their hash totals until the customer has supplied subtotals from their worksheet. Any discrepancies are addressed at that time. The payroll entry process is not finalized until the hash totals agree.

Fax transmissions are sent to the data entry personnel through a direct fax line located in the data entry department. This input worksheet includes a pre-formatted cover sheet. The cover sheet includes spaces for an authorized signature and various hash totals used for reconciliation purposes. Once the information is received, it is keyed into the software by data entry clerks. After all information is entered, the hash totals provided on the cover sheet are compared to those generated by the system. The payroll entry process is not finalized until hash totals agree and, if necessary, any discrepancies are properly addressed with the customers.

ReadyPay Online customers enter all required payroll information through the on-line web based portal. Once all pay period data and changes have been entered, the customer is responsible for reviewing an edit report generated by the software, known as the *Payroll Register Prior to Processing* report. This report includes input information, which the customer is encouraged to review. Once satisfied with the data input, the customer approves transmission through the Internet via an encrypted format to ECCA's site. Upon validation by ECCA's payroll processor, the information is downloaded into the software and is ready for processing.

System Processing

After the payroll transmissions have been entered or received, the payroll system collects the data in the form of transaction files and performs integrity and edit checks. These edit checks create a master database when a file does not exist for each record in the transaction. The transaction files are automatically run through a series of calculations, including calculating employee gross earnings, tax deductions, voluntary deductions, net pay, employer's tax liabilities, payment amounts, and due dates. During the calculation process, the software updates employer and employee year-to-date payroll and tax records with the amounts from the current pay period. The records from these transactions are used to update the database history.

Each day, the payroll system compares all payrolls scheduled to be received against those already received. At the end of each day, a report prompts the data entry personnel to follow up on payroll customers who have not yet remitted their payroll data. The data entry personnel follows up with the customer to ensure payroll is received timely.

Payroll Output

After all of the software processing has been finalized, the files are ready for printing and are queued in the software. The payroll processor is notified electronically that the files are ready. Through the workstation, the payroll processor runs the final payroll processing procedure, which generates the checks, standard reports, and any custom reports.

Checks

Checks represent the negotiable instruments and include an attached earnings statement. The earnings statement includes all current period and year-to-date payroll activity for the respective employee, including earnings, taxes and other deductions. The direct deposit statements are non-negotiable and include earnings statements. Checks drafted on a customer's bank account are signed using electronic signatures, which are stored in a secured electronic file. The signatures are printed with the pay information on fraud-resistant check stock, and the checks are immediately sealed using a pressure sealer. The pressure sealer adds tamper-evident perforated edges that must be removed in order to view the check or direct deposit statement and the related detail.

Standard Reports

The following standard reports are generated and are included in the payroll package sent to the customer:

The ***payroll register*** is the primary customer information report generated through the payroll process. It provides current pay period and year-to-date totals for all earnings, taxes and deductions.

Payroll tax summaries are standard reports generated through the processing system. These reports illustrate the detail of tax liabilities, net payroll, and a billing amount in order to assist the customer in determining the total payroll liability. The report also notes the amount debited from their bank account to cover the withheld and employer taxes, direct deposit, and other billing liabilities.

Customer input worksheets are templates provided to customers to record the payroll activity for a given pay period. The worksheets are provided to the telephone and fax customers and are to be completed prior to contacting the data entry personnel at ECCA. In addition to employee information, the worksheets include templates for specialty tax information and deductions.

Other Reports

The software is also capable of generating additional schedules outside the scope of the standard reports noted above. Among these auxiliary reports are a tip allocation register, general ledger posting report, worker's compensation, and other miscellaneous reports geared to help customers effectively manage their payroll. In addition to these reports, ECCA programmers are able to prepare additional reports for customers with specific needs. This function is available through the Report Writer function. These reports are generated on a customer-by-customer basis.

CASH TRANSACTIONS

Automated Clearing House (ACH)

Cash Inflow

Customers advance funds to ECCA based upon a cycle established during the new customer set-up process. The advance is based upon a payroll billing report prepared by ECCA. Customers make payments to ECCA by checks or ACH transfers. Any issues related to customer payments are investigated by the payroll managers. Each morning, payroll managers run customer deposit reports, which summarize cash received from customers into the trust account.

Cash Outflow

As each customer's payroll is processed, all money transfers are batched and queued in the software. The queue separates all ACH batches by customer. ECCA runs ACH transfers daily.

TAX

Verification processes are performed automatically throughout the day. These processes ensure all payroll liabilities agree with the total of funds disbursed through checks (local taxes), ACH (state and local taxes) or EFTPS (federal taxes). These procedures are performed using various reports generated through the software. Specifically, a report detailing deposits by due date is reconciled to agree the amounts remitted to the respective liabilities and the amounts collected from the respective customers.

PERIODIC PROCESSING

Weekly, Monthly, and Quarterly

ECCA makes all state, local, and federal tax deposits according to the customer's respective due dates. Due dates are governed by each tax jurisdiction's deposit rules, which differ according to the size of each customer's payroll and the pay dates. The tax department prepares reports on a weekly, monthly, and quarterly basis and reconciles them to the related deposit reports. This procedure is performed to ensure all tax liabilities processed were remitted.

Quarterly

Each quarter, ECCA provides its customers with quarter-to-date and year-to-date company level reports, in addition to employee earnings records. Copies of required payroll tax reports are also produced and forwarded to the customer. If customers elect to prepare their own payroll tax filings, copies are provided to them with filing instructions. All customers subscribing to the tax service receive electronic transmission files to support the payment, in addition to the hard copy tax files.

Annually

ECCA annually performs Enumeration Verification Services (EVS) for all of its payroll service customers. This process verifies the accuracy of Social Security information provided. Specifically, it identifies any discrepancies between the information on file with the Social Security Administration (SSA) and the information reported by the customer. All identified discrepancies are first sent to ECCA, who forwards them to the customer to be addressed.

Additional reports are prepared by ECCA as part of the annual processing procedures. Typically, the additional reports consist of employee form W-2, employer form W-3, and Federal 940 tax forms.

IV. CONTROL OBJECTIVES, CONTROLS AND TESTS OF OPERATING EFFECTIVENESS

Introduction

This report is intended to provide interested parties with information sufficient to understand the controls in place at ECCA related to its payroll processing system. This report, when combined with an understanding of the internal controls in place at customer locations and at their service organizations, is intended to assist user auditors in planning their audit and in assessing control risk for assertions of the financial statements of ECCA user organizations. This report was prepared according to guidelines contained in SSAE No. 18, Attestation Standards: Clarification and Recodification (*AICPA, Professional Standards, AT sec. 320*).

The description of controls comprises Section III of this report. The tests of operating effectiveness performed were based on the scope described in Section II of this report and focused on the ECCA payroll processing services provided to the payroll customers. Testing of controls was restricted to the control objectives and the related control activities outlined by ECCA management in this section of this report, which management believes to be the relevant key controls for the objectives stated, and was not extended to controls in effect at customer or other service or subservice organizations. It is each party's responsibility to evaluate this information in relation to internal controls in place for their respective customer. If effective customer internal controls are not in place, ECCA controls may not compensate for such weaknesses.

As part of the review of ECCA controls, a variety of tests were performed, each of which provided different levels of audit satisfaction. The combined results of these tests provided the basis for understanding the framework of controls and for determining the controls surrounding the operations that ECCA represented were in place and were operating effectively throughout the period October 1, 2018, to September 30, 2019.

Control Environment

The control environment represents the collective effect of various factors on establishing, enhancing or mitigating the effectiveness of specific controls.

In addition to tests of specific control activities, procedures included tests of, or considered the relevant elements of, the Company's control environment, including:

- Organizational structure and approach to segregation of duties;
- The functioning of the management of ECCA and committees thereof;
- Management control practices; and
- Personnel policies and practices.

Tests of the control environment included the following procedures, to the extent considered necessary: (a) review of the organizational structure, including segregation of functional responsibilities, personnel policies and reports; (b) discussions with management, operations, administrative and other personnel who are responsible for developing, ensuring adherence to and applying controls; and (c) observations of personnel in the performance of their assigned duties. The control environment was considered in determining the nature, timing and extent of testing of the operating effectiveness of controls relevant to achievement of the control objectives.

Controls

Tests of the operating effectiveness of the controls included procedures considered necessary in the circumstances to evaluate whether the controls and the extent of compliance with them were sufficient to provide reasonable, but not absolute, assurance that the specified control objectives were achieved during the period October 1, 2018, to September 30, 2019. Unless otherwise indicated, tests of the operating effectiveness of the controls were designed to cover a sample number of transactions and procedures, throughout the period October 1, 2018, to September 30, 2019, for the controls listed in this section, which are designed to achieve the specified control objectives. In selecting particular tests of the operating effectiveness of the controls, the following were considered: (a) the nature of the controls being tested; (b) the types and competence of available evidential matter; (c) the nature of the control objectives to be achieved; (d) the assessed level of control risk; (e) the expected efficiency and effectiveness of the test; and, (f) the testing of other controls relevant to the stated control objective.

Testing Procedures

This section outlines various procedures executed that often required the combination of one or more types of tests outlined in the test descriptions below. The following discussion also supplies more specific information about the scope and nature of these procedures where applicable.

Understanding the Operations

Gaining an understanding of the operations involves observing and tracing the flow of transactions through the system, discussions with ECCA employees regarding the relevant processing functions performed and the controls applied, and reviewing documents and records as necessary. Such procedures were performed for all transaction processing areas and other significant control elements presented in this report. This process enabled us to gain an understanding of the Company's framework of control and to identify those controls that are necessary to effectively achieve specified control objectives.

Control Testing

Procedures to test transactions, balances or other items included inspection of documents and records and re-performance of certain transactions. The detailed tests of transactions, balances or other items involved a judgmental selection of items for the period October 1, 2018, to September 30, 2019, and included review of the processing of the items for compliance with ECCA controls. This testing was designed to assess the existence and/or effectiveness of certain controls.

Systems Control Testing

In connection with the testing of the internal controls pertaining to the processing of transactions for the payroll services of ECCA, we tested automated application system controls (e.g., edits/validations of data, system calculations, production of reports) through various methods, including, but not limited to:

- Observing the actual production transaction process through the systems (e.g. transactions failing edit/validation checks);
- Obtaining evidence that the automated control is operating as intended through sufficient inquiry, observation, examination, and/or re-performance procedures during our walkthrough of the related transaction process; and
- Recalculating system-calculated balances or using computer-assisted audit techniques.

Test Descriptions

The types of tests performed to assess the operational effectiveness of ECCA payroll processing controls detailed in Section III are briefly described below:

Test	Description
Inquiry	<p>Inquired of appropriate ECCA personnel. Inquiries seeking relevant information or representation from ECCA personnel were performed to obtain, among other factors:</p> <ul style="list-style-type: none">• Knowledge, additional information, and affirmation regarding the control; and• Corroborating evidence of the control activity.
Observation	<p>Observed the application or existence of specific controls as represented.</p>
Inspection	<p>Inspected documents and records indicating performance of the control. This includes, 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 are properly monitored, controlled and resolved;• Examination of source documentation and authorizations to test propriety of transactions processed;• Examination of documents or records for evidence of performance such as the existence of initials or signatures; and• Inspection of ECCA systems documentation, such as operations manuals, organizational charts, job descriptions, and flow charts.
Reperformance	<p>Reperformed control activities as designed by management.</p>

Control Objective 1 – General Computer and Access Security Controls

Control objectives provide reasonable assurance that both logical and physical access is restricted to authorized individuals.

No.	Controls Specified by ECCA	Tests of Operating Effectiveness	Results of Testing
1.1	<p>The Company uses computers (workstations) from the same manufacturer to ensure compatibility. The IT manager approves any workstation purchases.</p>	<p>Inquired of the IT manager regarding procedures to purchase workstations and other ancillary equipment in order to ensure compatibility with all other workstations.</p> <p>Observed a selection of employee workstations to determine they were all from the same manufacturer.</p>	<p>No exceptions noted.</p>
1.2	<p>All employee computers are password protected and access to payroll processing programs is restricted to appropriate departments and employee function.</p>	<p>Inquired of the IT manager regarding procedures over the restriction and protection of the payroll processing programs.</p> <p>Inspected a selection of workstations not located in the payroll department to determine they did not have access to restricted payroll processing programs.</p>	<p>No exceptions noted.</p>
1.3	<p>The IT manager evaluates all software to be installed and utilized on a workstation-by-workstation basis, and performs all Windows installations and updates.</p>	<p>Inquired of the IT manager regarding the procedures to evaluate all software and Windows updates.</p> <p>Inspected a selection of workstations to determine the programs on the workstations were approved and observed the Windows update which is performed once a month.</p>	<p>No exceptions noted.</p>

No.	Controls Specified by ECCA	Tests of Operating Effectiveness	Results of Testing
1.4	ECCA has established physical access security related to servers, operating systems, and programs. Certain key employees have access to the administrative password for the servers. In the event of an emergency, these passwords are stored in a fire rated safe, which requires a key and numerical combination to gain access.	Inquired of the IT manager regarding procedures over access security. Observed an authorized employee access the fire rated safe, which required a key and a numerical combination. Additionally, SKM inquired of an unauthorized employee to verify they did not have access to the safe.	No exceptions noted.
1.5	Password security controls including minimum length, expiration, history, and account lockout are in place and established within all systems according to corporate policy.	Inquired of the IT manager regarding procedures over password security controls. Inspected the domain security policy within the computer security settings noting password security controls including minimum length, expiration, history, and account lockout are in place and established according to corporate policy.	No exceptions noted.
1.6	The front and back doors of the building are locked during non-business hours and unlocked at the start of business each day. If employees use the back door, they are met by a second door with a pass code, which is maintained by the corporate officers and employees. The half door in the back lobby is kept locked at all times.	Inquired of management regarding the accessibility to the building. Observed the pass coded keypad and the locked half door in the back entrance.	No exceptions noted.
1.7	The payroll processing employees are located in an interior room of the building, which is enclosed with interior windows and can only be accessed by a single point of entry.	Inquired of management regarding accessibility to the payroll processing room. Observed the payroll processors' separate location within the building, noting that it required entrance through a single door. The room was encased in windows, which provided visibility of the individuals located in the room.	No exceptions noted.

No.	Controls Specified by ECCA	Tests of Operating Effectiveness	Results of Testing
1.8	Payroll data transmitted to ECCA by the ReadyPay Online system is encrypted and protected by a redundant firewall.	<p>Inquired of the IT manager regarding security of the payroll data transmissions.</p> <p>Observed the primary and secondary firewall servers.</p>	No exceptions noted.

Control Objective 2 – New Customer Information and Setup Controls

Control objectives provide reasonable assurance that new payroll customer information is authorized, approved, and accurately set up in accordance with the Payroll and Tax Information Set-Up Kit (the Kit).

No.	Controls Specified by ECCA	Tests of Operating Effectiveness	Results of Testing
2.1	Agreements are reached with customers using an established pricing schedule. The pricing schedule identifies standard services provided by ECCA with predetermined prices outlined for each service. Each Sales Agreement is signed by the new customer and the ECCA sales or customer service representative.	Inquired of management regarding procedures in place to ensure signed service agreements are obtained. Inspected a selection of new customer Sales Agreements to determine there was a customer signature and an ECCA representative signature.	No exceptions noted.
2.2	Once the approved Sales Agreements have been received by ECCA, notification in the form of the Client Activity Report is sent to the customer service representatives involved in the day-to-day payroll functions.	Inquired of management regarding procedures in place to ensure Client Activity Reports are completed. Inspected a selection of new customer Client Activity Reports to determine the report properly included key client information.	No exceptions noted.
2.3	Certain customer authorization tax forms are requested after the Tax Information Set-Up Kit is entered and are obtained within sixty days of the first processed payroll.	Inquired of management regarding procedures in place to ensure the customer authorization tax forms are requested. Inspected a selection of new customers to determine the authorized tax forms were complete.	No exceptions noted.

No.	Controls Specified by ECCA	Tests of Operating Effectiveness	Results of Testing
2.4	ECCA requires the customer to provide a name of an employee authorized to receive payroll documents.	<p>Inquired of management regarding procedures in place to ensure names of authorized individuals to receive payroll documents are provided.</p> <p>Inspected a selection of new customer Client Activity Reports to determine that an authorized employee was identified.</p>	No exceptions noted.
2.5	ECCA requires a Federal Employer Identification Number (EIN) to begin the set-up of a new customer. This is requested as part of the documents in the Payroll and Tax Information Set-Up Kit.	<p>Inquired of management regarding procedures to ensure an EIN is obtained to facilitate the set-up of a new customer.</p> <p>Inspected a selection of new customer Client Activity Reports to determine the Federal EIN was provided and matched the Federal EIN in the payroll software.</p>	No exceptions noted.
2.6	<p>The payroll tax information which is obtained by the customer service representative as part of the Payroll and Tax Information Set-Up Kit includes the following : 1) Federal and State Tax ID Numbers (EIN and State UC Numbers, plus the relevant Experience Rate); 2) Documentation of quarterly unemployment filings from the current calendar year (if applicable); 3) Federal and State tax deposit frequency; 4) Names of local area taxes to be paid; 5) Documentation of the entity's tax exempt status (if applicable); and 6) Copies of previously filed quarterly taxes.</p>	<p>Inquired of management regarding procedures to ensure the proper payroll tax information is entered during the new customer set-up process.</p> <p>Inspected a selection of new customers' tax information to determine the tax information was provided by the customer and entered into the payroll software.</p>	No exceptions noted.

Control Objective 3 – Input Controls

Control objectives provide reasonable assurance that only authorized payroll data is input into the system.

No.	Controls Specified by ECCA	Tests of Operating Effectiveness	Results of Testing
3.1	<p><i>ReadyPay Online (RPO), Fax and Telephone Transmissions</i> Customers are required to designate at least one employee authorized to transmit payroll. This information is requested as part of the Payroll and Tax Information Set-Up Kit and is input into the ECCA payroll software system.</p>	<p>Inquired of management regarding requirements for customers to designate employees authorized to transmit payroll.</p> <p>Inspected a selection of customers' designated employees in the ECCA software and compared that to the designated employee listed in the Kit and related change forms to determine it was an approved individual.</p>	No exceptions noted.
3.2	<p><i>Telephone</i> Customers are required to communicate either their customer ID number as a password or a unique password when they telephone in their payroll data if the customer is not known by other certain methods of recognition.</p>	<p>Inquired of management regarding procedures for customer identification when receiving payroll data via telephone.</p> <p>Observed telephone transmissions between a customer and ECCA payroll data entry clerk to determine the ECCA clerk asked for the customer password.</p>	No exceptions noted.
3.3	<p><i>Telephone</i> Customers who telephone their payroll data are required to disclose their control totals to the ECCA data entry clerk. If any discrepancies are noted, the ECCA employee will immediately address it with the customer. ECCA employees will not provide their control totals to the customer.</p>	<p>Inquired of management regarding procedures to ensure payroll data provided via telephone is entered appropriately by the ECCA data entry clerk.</p> <p>Observed telephone transmissions between a customer and a payroll data entry clerk to determine the ECCA payroll data entry clerk obtained the customer control totals as verification of entered data.</p>	No exceptions noted.

No.	Controls Specified by ECCA	Tests of Operating Effectiveness	Results of Testing
3.4	<p><i>Facsimile</i></p> <p>Facsimile transmitted payroll data changes are manually documented on the cover of the facsimile transmission sheet (or among the other information sent with the transmission). Facsimile transmissions are received by the payroll data entry personnel and include control totals and an authorized user identifier. These control totals are used by the payroll data entry personnel to verify the data entered. Once the required changes are made and the payroll data is entered and verified by the payroll data entry clerk, the payroll is processed.</p>	<p>Inquired of management regarding procedures for receiving payroll data via fax transmission.</p> <p>Inspected a selection of facsimile transmission data changes to determine the changes to ECCA software were performed by an ECCA employee.</p>	No exceptions noted.

Control Objective 4 – Processing Controls

Control objectives provide reasonable assurance that payroll processing is scheduled, appropriate statutory and customer specifications are used to process payroll deductions and tax withholding calculations, and payroll data is processed completely and accurately.

No.	Controls Specified by ECCA	Tests of Operating Effectiveness	Results of Testing
4.1	The payroll processor uploads a daily schedule of customer payrolls that are scheduled to be processed. This schedule is automatically generated based upon the pay period of the information in the customer database.	Inquired of management regarding the procedures to maintain the daily schedule of customer payrolls. Observed the payroll processor upload the daily schedule of customer payrolls.	No exceptions noted.
4.2	Payroll data not received by the end of the day that payroll is scheduled to be processed is automatically flagged for follow up in the payroll software. Data entry personnel are responsible for following up on any late or missing payroll information with the authorized customer contact.	Inquired of management regarding procedures in place to follow up on late or missing payroll information. Observed the data entry personnel follow up with the appropriate contact to obtain missing payroll information.	No exceptions noted.
4.3	There are four individuals in charge of handling tax-related issues. There is one individual responsible for ensuring the tax tables are up-to-date and that the proper tables have been implemented.	Inquired of management regarding procedures in place to update and implement the proper tax tables. Inspected the most recent tax table update. The update was compared to the tax tables provided by the Internal Revenue Service.	No exceptions noted.

No.	Controls Specified by ECCA	Tests of Operating Effectiveness	Results of Testing
4.4	The applications are configured to accurately apply tax withholding rate information and other client-specified pay deductions.	Inquired of management regarding the process of applying tax withholding rates and other client-specified pay deductions. Reperformed the tax withholding and other deduction calculations for a selection of employees and customer payrolls.	No exceptions noted.
4.5	Telephone and fax payroll transmissions require that certain totals are provided by the customer. After all data has been entered, the payroll data entry clerk reconciles the customer-provided control totals to those generated by the system during the payroll entry process.	Inquired of management regarding the use of control totals to ensure payroll data has been entered correctly by the data entry clerk. Observed the payroll data entry clerk reconcile the customer-provided control totals to the totals generated by the payroll system.	No exceptions noted.

Control Objective 5 – Output Controls

Control objectives provide reasonable assurance that checks and reports generated are complete and distributed in accordance with customer specifications.

No.	Controls Specified by ECCA	Tests of Operating Effectiveness	Results of Testing
5.1	All checks and direct deposit remittances are printed on fraud-resistant check stock and are immediately sealed using a pressure sealer. The sealing machine adds tamper-evident perforated edges to the checks, which must be removed in order to view the check detail.	Inquired of management regarding the check processing procedures. Inspected a selection of customers' payroll checks and direct deposit remittances to determine they were printed on fraud-resistant check stock and sealed using a pressure sealer.	No exceptions noted.
5.2	The ECCA Trust account uses a positive pay system. Under positive pay, ECCA provides the bank several specific pieces of information related to the checks to be cashed. The bank, in turn, will only honor a payroll check when that information is matched.	Inquired of management regarding the existence of the positive pay system. Observed a payroll manager transmit the daily positive pay files to the banking institution.	No exceptions noted.
5.3	The payroll processor packages the documents in tamper-evident envelopes. The information is designated as confidential, specifies distribution method (e.g., ECCA delivery, UPS, FedEx, or customer pick-up), and is addressed to the authorized customer employee.	Inquired of management regarding the procedures to deliver the payroll packages to the authorized customer employee. Inspected a selection of customers' payroll reports and employee remittances to determine they were placed in a tamper-evident envelope and addressed to the authorized customer employee.	No exceptions noted.

No.	Controls Specified by ECCA	Tests of Operating Effectiveness	Results of Testing
5.4	Pick-up and delivery logs are utilized by ECCA personnel to monitor and control the distribution of payroll packages. A signature of the customer employee must be received upon transfer of the payroll documents, unless specified by the customer.	Inquired of management regarding the pick-up and delivery procedures to ensure that the ECCA personnel monitor and control the distribution of payroll packages. Inspected a selection of log sheets for customer signatures to determine the delivery of each customer payroll package was received by an individual at the customer addressed location.	See exceptions noted below.

Exceptions identified in **Section 5.4** above:

For 2 of 25 payroll clients selected, the client did not sign for the payroll package. Accordingly, delivery of the customer payroll package in accordance with client specifications was undeterminable.

Management's Response:

Management will review the payroll delivery procedures with delivery drivers to ensure packages are distributed in accordance with client specifications. In cases where customers are not always on site to sign for the packages, ECCA will ask those customers to revisit the available delivery options to ensure that ECCA is honoring the customer delivery instructions.

Control Objective 6 – Automated Clearing House (ACH) and Tax Processing Controls

Control objectives provide reasonable assurance that appropriate ACH and tax filings are complete, accurate and timely.

No.	Description of Controls	Tests of Operating Effectiveness	Results of Testing
6.1	ECCA processes ACH transfers daily.	Inquired of management regarding the procedures in place over ACH transfers. Observed the daily ACH transfers performed.	No exceptions noted.
6.2	The non-payroll personnel do not have access to customer bank account numbers or ACH transactions.	Inquired of management regarding the procedures to ensure non-payroll personnel do not have access to customer bank account numbers or ACH transactions. Inspected a selection of computers of non-payroll personnel to determine the individual did not have access to the customer's bank account number or ACH transactions.	No exceptions noted.
6.3	Verifund, an internally generated software, performs an automated bank account reconciliation comparing the amounts drawn by ECCA from the customer's bank account to the amount expected to be drawn as calculated by the payroll software.	Inquired of management regarding Verifund's automated bank account reconciliation process. Inspected a selection of Verifund reconciliation reports to determine the daily Verifund reconciliation was performed.	No exceptions noted.
6.4	After all ACH transfers are performed, a log is generated from the Verifund software, detailing all activity (by customer and bank) for the day. This log is compared to totals noted by each respective bank. These amounts are reconciled by a tax manager independent of the manager who initiated the original transfer.	Inquired of management regarding the reconciliation procedures involving the daily detailed Verifund log. Inspected a selection of daily logs to determine the log totals agreed to the respective bank totals.	No exceptions noted.

No.	Description of Controls	Tests of Operating Effectiveness	Results of Testing
6.5	ECCA utilizes internal software programmers to update the IRS tax tables.	<p>Inquired of management regarding the procedures to ensure the IRS tax tables are properly updated.</p> <p>Inspected email notification of IRS tax table updates to determine the updates are being performed.</p>	No exceptions noted.
6.6	Daily, the tax manager uploads a tax deposit report noting all taxes due. This report lists all customers whose payroll has been processed and the respective tax due dates. Generally, tax payments are made two days before their due date to ensure timely payments.	<p>Inquired of management regarding the daily procedures to ensure taxes withheld are properly remitted when due.</p> <p>Inspected a selection of federal and state tax deposit reports to determine the quarterly taxes were paid timely.</p>	No exceptions noted.
6.7	Deposit reports for all ACH and Electronic Federal Tax Payment System (EFTPS) transfers are produced each morning. This report identifies each attempted payment transaction and indicates if it was successful. If a transaction is not marked "successful," a tax manager is required to follow up with the related taxing authority to ensure the payment is timely remitted.	<p>Inquired of management regarding the procedures to ensure that daily EFTPS transfers were successfully transmitted.</p> <p>Inspected a selection of daily ACH and EFTPS reports to determine payments were either coded as "successful" or follow up procedures were performed by the tax manager.</p>	No exceptions noted.
6.8	A tax specialist reconciles the total tax liability from MasterTax to the tax liability from Verifund and follows up on any discrepancies.	<p>Inquired of the tax specialist regarding the tax liability reconciling procedures that are performed.</p> <p>Observed the tax specialist reconcile the tax liability reports to determine the reconciliation process was performed.</p>	No exceptions noted.

Control Objective 7 – Change Management

Control objectives provide reasonable assurance that the development of new payroll applications and enhancements of existing applications are documented.

No.	Description of Controls	Tests of Operating Effectiveness	Results of Testing
7.1	A ticketing system is used for internal and external requests to update/change the production application software.	<p>Inquired with management regarding procedures for tracking requests for changes to the production application software.</p> <p>Inspected a report noting outstanding software application tickets, noting ticket number, project manager, status, and priority.</p>	No exceptions noted.

Control Objective 8 – Protection from Environmental Factors

Control objectives provide reasonable assurance that measures are implemented, monitored and maintained for the protection of computer equipment from environmental factors.

No.	Description of Controls	Tests of Operating Effectiveness	Results of Testing
8.1	The Company has a natural gas powered backup generator installed, which is tested weekly to ensure good working order.	<p>Inquired of IT management the procedures over the generator's testing.</p> <p>Observed the generator and verified that the generator was in service and was tested weekly.</p>	No exceptions noted.
8.2	All servers run on Uninterruptible Power Sources (UPS). The UPS prevent data corruption in the event of power failure, are surge protected, and provide ten minutes of backup power until the backup generator is activated.	<p>Inquired of IT management whether the facility was equipped with a UPS system.</p> <p>Observed the UPS system and verified that the facility was equipped with a UPS system.</p>	No exceptions noted.
8.3	The server room is equipped with air conditioning units to maintain a temperature-controlled environment and heat sensors to detect temperature changes.	<p>Inquired of IT management whether the server room was equipped with air conditioning units to maintain a temperature-controlled environment and heat sensors to detect temperature changes.</p> <p>Inspected the server room and verified that it was equipped with air conditioning units to maintain a temperature-controlled environment and heat sensors to detect temperature changes.</p>	No exceptions noted.

No.	Description of Controls	Tests of Operating Effectiveness	Results of Testing
8.4	The processing and distribution centers are equipped with fire extinguishers and smoke detectors.	Inquired of management regarding whether the processing and distribution centers were equipped with fire extinguishers and smoke detectors. Inspected the processing and distribution centers and verified that they were equipped with fire extinguishers and smoke detectors.	No exceptions noted.
8.5	All servers are set up with file server replication via Veeam software, which regularly backs up data to cloud storage. Additionally, a NAS device stores fourteen days of backups. Five days of data are backed up at a time on an in-house server to guard against losses and time-consuming information retrieval. All quarterly and yearly backups are stored in a fireproof safe in a locked room.	Inquired of the IT manager regarding the data backup procedures. Inspected the backup log to ensure a continuous backup to the cloud was taking place.	No exceptions noted.
8.6	A formal disaster recovery plan has been developed to provide an organized approach of managing the recovery of an unplanned business interruption.	Inquired of management regarding a formal disaster recovery plan. Inspected the disaster recovery plan to verify there is a formal plan in place.	No exceptions noted.

V. USER CONTROL CONSIDERATIONS

The Company's internal control structure only represents part of the internal control required to effectively process transactions for the user entities. Control objectives can only be completely achieved if certain controls and procedures are performed at the user entity level. Accordingly, the internal control structure discussed in this report should be considered in relation to controls in place at user entity locations.

Each user entity should review its own policies and procedures to determine if proper control is maintained over the related transactions. Among the controls needed to facilitate proper control related to the payroll process are the following:

PAYROLL INPUT PROCESS CONTROLS

Telephone and Facsimile Data Input

- Customers should perform a detailed review of the customer data entered by ECCA during the initial setup phase. The payroll checks and reports should also be reviewed for accuracy and completeness by the customer and their employees after the first payroll, as well as after any changes to payroll data.
- Customers are provided input worksheets to assist in reporting payroll data to ECCA. Customers should have control policies and procedures in place to ensure access to these input worksheets is restricted to authorized employees and to review payroll information for completeness and accuracy before transmitting the data to ECCA.
- Customers are responsible for initiating and approving changes to employee information and for verifying the accuracy of changes made in subsequent payroll cycles and the employee documentation of such changes.

ReadyPay Online Data Input

- Customers utilizing ReadyPay Online should have policies and procedures in place to:
 - Require the use of software's control total features. These control totals will illustrate variances between the customer's anticipated payroll totals and accumulated totals calculated by ECCA.
 - Timely review the *Payroll Register Prior to Processing Report* and *Employee Change Listing Report* designed for accuracy and completeness of data input prior to the transmission of payroll data to the Company.

General Controls

- Customers should have policies and procedures in place to timely communicate and review requested changes in the authorized customer contact.
- Customers should have policies and procedures in place to control user passwords to properly restrict the access of payroll information and data transmission to authorized staff.

PAYROLL OUTPUT PROCESS CONTROLS

- Customers should have control policies and procedures in place to ensure that payroll output, including downloads to the software's payroll data, is restricted to authorized customer personnel.
- Customers should perform a timely detailed review of each payroll to verify the accuracy and completeness of the payroll data.
- Customers should have controls in place to ensure only authorized individuals have access to payroll related information.
- Customers should have procedures in place to timely reconcile the tax filings to payroll reports.

OTHER USER ENTITY CONTROL CONSIDERATIONS

Customers should have policies and procedures in place to ensure that:

- Accurate and complete data necessary to process payroll is provided timely prior to the pay date.
- Bank accounts used to fund payroll are reconciled on a timely basis.
- Banking information provided to ECCA is complete and accurate.
- Sufficient funds are available in the specified bank account for the disbursement of funds by the date provided by ECCA.
- ECCA is notified timely of payroll related changes.
- Changes to the employee tax deduction information is initiated and approved and accuracy of the changes made is verified in subsequent payroll cycles.
- Tax deduction change documentation is retained.
- Direct deposit changes are made accurately and completely.
- Only designated, authorized individuals are to receive and open the payroll packet.
- Payroll output will be retained for the appropriate length of time to satisfy all federal, state, and local payroll compliance agencies.
- Customers are responsible for reviewing and communicating to ECCA any employee data errors prior to tax processing.
- Terminated employees' network access is timely removed.
- Employee dishonesty coverage is maintained for the personnel responsible for processing payroll.
- Instructions and information provided to ECCA is in accordance with provisions of the applicable governing agreements or documents between ECCA and the customer.
- Any known or suspected processing, data integrity and security issues are reported to ECCA in a timely manner.

- Proof of prior tax deposits remitted by the predecessor payroll service provider are provided and communicated to ECCA upon commencement of services with ECCA.
- Any tax notices received are communicated to ECCA, and they are resolved timely.