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DOMINION PAYROLL SERVICES

Service Organization Control 1 Report

Description of Payroll, Tax Filing, and Tax Payment System

As of July 10, 2012

TABLE OF CONTENTS

SECTION I:

INDEPENDENT SERVICE AUDITOR'S REPORT

Independent Service Auditor's Report

To the Executive Team
Dominion Payroll Services, LLC
Richmond, Virginia

Scope

We have examined Dominion Payroll Services' description of its payroll, tax filing, and tax payment system (Description) for processing user entities' transactions as of July 10, 2012, and the suitability of the design of controls to achieve the related control objectives stated in the Description. The Description is located in Section III of this report. The Description indicates that certain complementary user entity controls must be suitably designed and implemented at user entities for related controls at the service organization to be considered suitably designed to achieve the related control objectives. We have not evaluated the suitability of the design or operating effectiveness of such complementary user entity controls.

Dominion Payroll Services uses subservice organizations that provides payroll software development and ACH processing. The Description includes only the controls and related control objectives of Dominion Payroll Services and excludes the control objectives and related controls of subservice organizations. Our examination did not extend to controls of the subservice organizations.

Service organization's responsibilities

In Section II of this report, Dominion Payroll Services has provided an assertion about the fairness of the presentation of the Description and suitability of the design of the controls to achieve the related control objectives stated in the Description. Dominion Payroll Services is responsible for preparing the Description and for its 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, and designing, implementing, and documenting controls to achieve the related control objectives stated in the Description.

Service auditor's responsibilities

Our responsibility is to express an opinion on the fairness of the presentation of the Description and on the suitability of the design 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, in all material respects, about whether the Description is fairly presented and the controls were suitably designed to achieve the related control objectives stated in the Description as of July 10, 2012.

An examination of a Description of a service organization's system and the suitability of the design 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 of the system and the suitability of the design of the 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 to achieve the related control objectives stated in the Description. An examination engagement of this type also includes evaluating the overall presentation of the Description and the suitability of the control objectives stated therein, and the suitability of the criteria specified by the service organization and described in Section II of this report.

We did not perform any procedures regarding the operating effectiveness of the controls stated in the Description and, accordingly, do not express an opinion thereon.

We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Inherent limitations

Because of their nature, controls at a service organization may not prevent, or detect and correct, all errors or omissions in processing or reporting transactions. The projection to the future of any evaluation of the fairness of the presentation of the Description, or any conclusions about the suitability of the design of the controls to achieve the related control objectives is subject to the risk that controls at a service organization may become ineffective or fail.

Opinion

In our opinion, in all material respects, based on the criteria described in Dominion Payroll Services' assertion,

a) the Description fairly presents the payroll, tax filing, and tax payment system that was designed and implemented as of July 10, 2012, and

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 as of July 10, 2012 and user entities applied the complementary user entity controls contemplated in the design of Dominion Payroll Service's controls as of July 10, 2012.

Restricted use

This report is intended solely for the information and use of Dominion Payroll Services, user entities of Dominion Payroll Services' payroll, tax filing, and tax payment system as of July 10, 2012, 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 obtaining an understanding of user entities information and communication systems relevant to financial reporting. This report is not intended to be and should not be used by anyone other than these specified parties.

September 14, 2012
Glen Allen, Virginia

SECTION II:

MANAGEMENT ASSERTION

Management Assertion

We have prepared the description of Dominion Payroll Services (DPS or the Company) system for processing payroll, tax payment, and tax filing (Description) for user entities of the system as of July 10, 2012, 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 obtaining an understanding of user entities' information and communication systems relevant to financial reporting. The Description is located in Section III of the SOC 1 Report.

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

1) The Description fairly presents the system for processing payroll, tax payment, and tax filing (System) made available to user entities of the System as of July 10, 2012, for processing their transactions. DPS uses the services of external organizations to provide software development services and ACH processing services related to the System. Those relevant organizations and services they provided during the reporting period relevant to the System are as follows:

   - Payroll Associates - provides software development services
   - Cachet Banq - provides ACH processing services

   The Description includes only the controls and related control objectives of DPS and excludes the control objectives, and related controls of external organizations (sub-service organizations) noted above. 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 services, including:
       i. The types of services provided.
       ii. 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.
       iii. 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.
       iv. How the System captures and addresses significant events and conditions, other than transactions.
       v. The process used to prepare reports or other information provided to user entities' of the System.
       vi. Specified control objectives and controls designed to achieve those objectives.
       vii. 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.
       viii. Specified control objectives and controls designed to achieve those objectives, including as applicable, complementary user entity controls contemplated in the design of the service organization's controls.

b. 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 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.

2) The controls related to the control objectives stated in the Description were suitably designed as of July 10, 2012 to achieve those control objectives if user entities implemented the Complementary User Entity Controls and sub-service organizations applied the controls contemplated in the design of the Company's controls. The criteria we used in making this assertion were that:

a. The risks that threaten the achievement of the control objectives stated in the Description have been identified; and
b. 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 if user entities implemented the Complementary User Entity Controls.

Mr. David Gallagher   Mr. David Fratkin
CEO   President
Dominion Payroll Services, LLC   Dominion Payroll Services, LLC

SECTION III:

DESCRIPTION OF THE SYSTEM PROVIDED BY DOMINION PAYROLL SERVICES

OVERVIEW OF OPERATIONS

Dominion Payroll Services (DPS or the Company) is a Virginia-based service bureau providing fully outsourced payroll processing. DPS currently serves hundreds of clients ranging in size from one to several thousand employees offering a full suite of human resources, payroll and time and attendance services and products. DPS focuses on clients headquartered in Virginia, yet services clients all over the United States.

DPS licenses PayChoice, payroll processing software, from Payroll Associates, Inc. Payroll Associates has developed and provided payroll software for 20 years and has a very strong reputation in the industry for the strength of its product. The software uses one database to share information for both payroll and human resources.

CONTROL ENVIRONMENT

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

The control environment has a pervasive influence on the way an organization structures business activities, establishes objectives, and assesses risks. It also influences control activities, information and communication systems, and monitoring procedures. An entity's history and managerial culture influences the control environment. Effectively controlled entities strive to have competent people, instill an enterprise-wide attitude of integrity and control consciousness, and set a positive "tone at the top". These entities establish appropriate controls that foster shared values and teamwork in pursuit of the organization's objectives.

Management's Philosophy and Operating Style

DPS is led by the owners who serve as the Chief Executive Officer (CEO) and President. Employees have daily access to the CEO and President. They hold regular staff meetings at which employee feedback and suggestions are encouraged. The owners and management team regularly discuss internal control procedures with employees through staff meetings and on-the-job training and coaching. Management consistently stresses the importance of adhering to established control procedures and solicits recommendations from employees on how controls might be enhanced.

Assignment of Authority and Responsibility

DPS' CEO and President share ultimate responsibility for overseeing the organization business policies and the payroll, tax filing, and tax payment processes; displaying and reinforcing a commitment to maintaining the highest levels of ethics and integrity over the processes; and assigning authority and responsibility for operating activities. When assigning authority and responsibility, management considers the nature of employee positions, as well as ensuring that effective segregations of duties are maintained.

To ensure that employees understand their responsibilities and level of authority, management has developed employee position descriptions for all roles within the Company.

Organizational Structure

The organizational structure of DPS facilitates the flow of appropriately detailed information utilizing an "open door" communication policy. The CEO and President are actively involved in the day-to-day operations of the Company. The following chart illustrates DPS' organization structure.

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        CEO ──────────────────────── President
         │                               │
    ┌────┴────┐          ┌──────┬────────┼──────────┐
  Sales    Production   CFO    Tax     General   Implementation
  Manager   Support            Manager  Manager   Manager
            Manager
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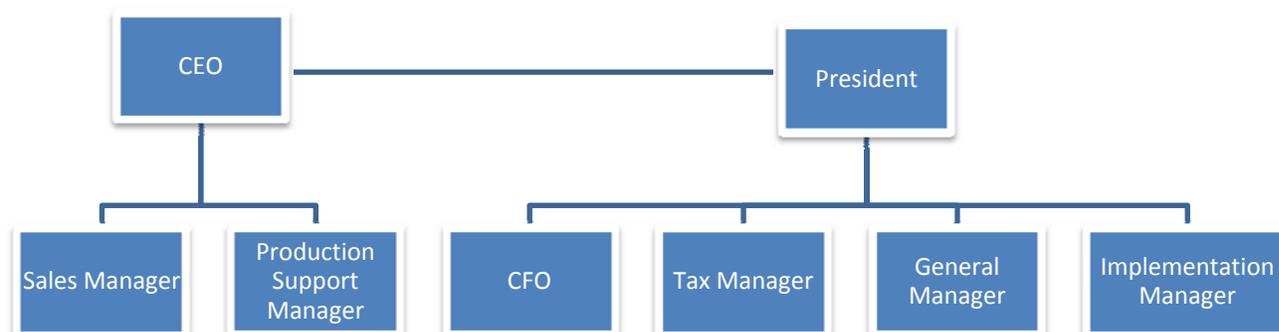
Human Resource Policies and Practices

DPS designed its hiring policies and practices to ensure that new personnel are qualified for their job responsibilities. Hiring practices include background checks and an evaluation of education, experience, and references. New hires are required to read and acknowledge their understanding of the DPS employee handbook. The handbook includes the following policies:

- Confidentiality and Conflict of Interest
- Office Guidelines and Reporting Irregularities (e.g. loss, fraud, or embezzlement) Equal Employment Opportunity and Harassment Policy
- Firm Policy Manual

Annually, management performs formal performance evaluations to provide employees with a tool to understand their job performance and areas for improvement. In addition, the evaluation process helps management in determining compensation and topics for upcoming training sessions.

Training

Management is committed to training and retaining the best-qualified personnel. New hires are required to complete self-paced training to improve their payroll knowledge and formal training for DPS' systems and processes. DPS is committed to continuing education and training through in-house training and encouragement of advanced certifications. Weekly, management holds in-house training to develop employees' skills. Management encourages employees to pursue the American Payroll Association's Certified Payroll Professional (CPP) designation. The CPP is awarded to individuals who have passed a rigorous exam covering payroll administration, systems, and payroll accounting; meet a mandatory experience requirement; and commit to continuing professional education.

Confidentiality Agreement

DPS has established a policy regarding the appropriate handling of confidential information. The policy statement is distributed to each employee with the Employee Handbook. Annually, employees are informed of the importance of maintaining the appropriate level of security over client confidential information.

Integrity and Ethics

Management believes maintaining a climate that demands integrity and ethical values is critical to the establishment and maintenance of an effectively controlled organization. The effectiveness of internal controls cannot rise above the integrity and ethical values of the people who create, administer, and monitor them. Management's philosophy and operating style affect the managing of the entity, including the kinds of business risks accepted. DPS has developed a methodology which management believes ensures that the integrity of processing and the promotion of ethical values are the primary focus and controls exist to mitigate the risks in daily operation. Management communicates DPS' ethical standards through policies describing appropriate business practices, and knowledge and experience of key personnel.

Weekly, DPS personnel meet to discuss the Company's core values: integrity, respect, continual improvement, teamwork, balanced lifestyle, and community involvement. During the meeting, employees are recognized for exhibiting the Company's values.

RISK ASSESSMENT

DPS management undertakes a continuous risk assessment process. Management is committed to proactively addressing potential risks identified and implementing appropriate actions steps. Risk assessments are based on management's experience, as well as reliable and timely information obtained from knowledgeable internal and external sources.

Periodically, the CEO and President meet to discuss the risks the business is facing. These include risk identification strategies; various aspects of financial and technological risks; and risk mitigating activities.

MONITORING

DPS management and personnel monitor the quality of internal control performance as a normal part of their activities. Monitoring is performed over a wide variety of functions across all levels of the organization and occurs through both automated and manual processes.

The CEO and President implemented controls and reporting to ensure that the personnel meet or exceed expected performance levels. Management is provided regular information that allows them to monitor performance issues. Weekly, management meets with the CEO and President to discuss goals and objectives and to provide status reports.

INFORMATION AND COMMUNICATION

DPS has established an organization structure that facilitates the communication of important business information pertaining to the payroll, tax filing, and tax payment processes. Employees are informed of Company and individual responsibilities through a variety of channels of communication. DPS processes are documented at varying levels of detail based on the complexity of the process. The procedures are maintained in hardcopy and on shared network drives.

Multiple channels of communication are used to facilitate the flow of information between clients and DPS employees. Client representatives contact clients on a routine basis via phone, fax, letter, and e-mail. In addition, DPS publishes a monthly newsletter for clients with special editions printed as needed.

PAYROLL PROCCESSING CONTROLS

DPS uses the PayChoice software for its payroll processing. PayChoice is designed to meet multiple purposes for the payroll service bureau and its clients, including the processing payroll and employee payments, transaction reporting, tax payments and reporting, client billing, and other payroll-related processes.

Clients can submit employee information and pay data via e-mail, fax, phone, or online through DPS' web-based service that gives the client control of their employee information and pay data. DPS calculates payroll, processes direct deposit and checks, and pays the taxes based on the client data. Clients receive their payroll reports and checks online or via courier.

New Client Implementation

The accurate setup or conversion of a new client is critical to the accurate processing of payroll. Therefore, the following procedures are followed for every new DPS' client.

DPS utilizes HRAnswerlink's Customer Relationship Management (CRM) system to manage client relationship information.

When DPS acquires a new client, a Sales Representative will provide the client a new client checklist that includes new client information and employee master file data. The Sales Representative, General Manager, Implementation Manager, and members of the Executive Management team (if required) will hold an implementation team meeting to discuss the new client information and complete an installation checklist. The installation checklist includes vital information required to set-up PayChoice including but not limited to company name, authorized client payroll contacts, federal identification number, check and payroll processing dates, ACH and check information, and client training information.

Once all the necessary installation information is obtained, the Implementation Team takes over. A member of the Implementation Team will set up the client in PayChoice and run an installation payroll. The installation payroll is a critical component of the successful conversion of a new client. The following procedures are performed to ensure the installation payroll is processed accurately:

- The Implementation Team runs the installation payroll to upload demographic and tax information (quarter-to-date and year-to-date payroll balances) for current and terminated employees paid in the current year into PayChoice. The Implementation Team member will print payroll reports and variance reports from the installation payroll, but will not print checks.
- The Implementation Team member will review the demographic information (including employee names, addresses, social security numbers, pay rates, and tax filing information) for accuracy and evidence the review on the installation checklist.
- The Implementation Team member will then perform an analysis of FICA tax variances. The FICA taxes are calculated based on the employee's wages minus pre-tax deductions times a set federal percentage. By comparing the FICA tax calculations in the installation payroll against the client's quarter-to-date and year-to-date totals, the Implementation Team can confirm the payroll is processing accurately. Variances are investigated and resolved prior to continuing.
- After all items on the installation checklist are completed, the Implementation Manager will review and approve the installation checklist.
- The Implementation Team runs the client's first payroll; the Implementation Manager and/or the President will spot check the payroll and sign off on the installation checklist.
- The Implementation Team forwards the payroll to the client for approval. After the client approves the payroll, the Implementation Team forwards the client to the Payroll Processors for all future payroll processing.
- If the client is utilizing Direct Deposit for its employees, all employee banking information is entered and a pre-note transaction is processed for the client's first payroll to ensure all banking information is correct for each employee. It is DPS' policy to pre-note every client's first payroll to confirm the accuracy of the banking information provided.

Payroll Processing

The DPS Operations Department consists of a dedicated team of Payroll Processors to assist clients with their payroll. The Payroll Processors ensure that each payroll is accurately processed and that the payroll data is received from authorized sources.

HRAnswerlink is used to track all aspects of DPS operations and provides for continuous monitoring of payroll processing.

Approximately 85% of DPS clients submit payroll online through Payroll Associate's PayChoice Online system. PayChoice Online provides DPS clients unique logins and passwords to access PayChoice Online. Client access is limited to its employees' information. Upon the first visit to the website, the client is required to create a unique password that is masked in the system.

A client will access PayChoice Online, enter their pay data, review the data for accuracy, and submit. Clients transfer payroll to DPS electronically through Secure Socket Layer (SSL) technology with 128-AES encryption to protect the completeness and security of the data. Clients that submit payroll online are required to go through a multi-step verification process (e.g., edit checks, control totals, employees paid and not paid during the cycle) to ensure that the data entered is correct.

When a client submits a payroll for processing, PayChoice Online automatically generates emails to the DPS Payroll Processors. The emails are automatically logged into HR Answerlink.

Clients that do not use PayChoice Online will fax employee timesheets or call the Payroll Processors. The Payroll Processors are very familiar with these clients. The Payroll Processors will not process faxed or called in payroll that is not consistent with the payroll schedule or from an unknown or unauthorized individual. The Payroll Processors will compare the PayChoice control totals to the client provided information to verify the client received data agrees to the data input.

Once the input process is complete and no changes are required, the Payroll Processors process the payroll. PayChoice is designed to process payroll and payroll-related transactions and to generate paychecks, direct deposit transactions, tax deposits, other payments and related reports. The system maintains employee and company balances and accumulates processed payroll transactions.

Payroll processing activities include:

- Processing payroll transactions;
- Calculating gross pay;
- Calculating federal, state, and local income tax withholdings and social security and Medicare tax withholdings;
- Calculating employer social security, Medicare, federal unemployment, and state unemployment taxes;
- Generating payroll checks, direct deposits, and related payments;
- Generating reports;
- Creating or deleting company or employee master file records;
- Calculating employee deductions and company memo calculations for client-defined deductions and benefits;
- Calculating net pay including electronic payments and paychecks; and
- Auditing major changes to payroll processing, including but not limited to, check dates, pack out instructions, and bank account changes.

Changes to Payroll

The General Manager, or a qualified payroll auditor, reviews every payroll and ensures the changes identified on payroll submission forms are applied to the current payrolls.

Payroll Scheduling

Procedures have been implemented to ensure that payroll processing is scheduled and performed appropriately and deviations from the payroll schedules are identified and resolved. The General Manager prepares an annual payroll calendar including tax ids, filing frequencies, and unemployment tax payment information. The client reviews and returns the calendar if there are discrepancies.

The General Manager prepares a weekly payroll schedule. Daily, the Payroll Processors review the payroll schedules to determine the clients that should be submitting payroll for processing. As clients submit payrolls, HRAnswerlink is updated to note the receipt of the payroll data. If a payroll is not submitted at the scheduled time, the Payroll Processor contacts the client so that the payroll data can be obtained and the payroll quickly processed. Daily, the General Manager monitors the payrolls received, processed, and completed for delivery.

The Payroll Processors and General Manager continuously monitor the payroll process for errors. If PayChoice or a Processor identifies an error, the Payroll Processor responsible for the payroll will work with the client, if necessary, to resolve the issue in a timely manner. All errors must be resolved to complete the processing.

Payroll Distributions

The majority of DPS' clients receive their payroll reports and checks electronically, thereby eliminating many of the risks associated with conventional delivery methods. When a payroll is processed for the client, a password protected and encrypted file is created in PayChoice that contains images of the client's payroll reports and checks. This file is sent to the client via email or the client retrieves the file from DPS' secure website. The client can only open the file using the ViewChoice software that is installed on the client's computer and is password protected. The data is securely stored on the client's computer and the client is then responsible for the printing and distributing the payroll check stubs and reports.

The payroll reports vary based on client needs. The standard reports generated with each payroll processed include:

- Pay Statements (checks and/or vouchers)
- Payroll Register
- Check Reconciliation Report
- ACH – Direct Deposit Report
- Tax Liability Report
- Current Deduction Report

There are a variety of additional standard and custom reports that are produced based on client need.

Checks and vouchers print on blank check stock that is specifically designed and printed with industry standard security protection.

For clients not receiving payroll checks and vouchers electronically, DPS produces the payroll package (payroll checks and reports) in-house. The Pack-Out Specialist monitors the payrolls processed in the HRAnswerlink system. Once a payroll is completed, the Pack-Out Specialist will confirm the delivery method (e.g., courier, pickup, UPS) and special delivery requirements, assemble the payroll package, confirm the payroll package is complete, and forward the package according to the delivery method. At close of business, payrolls that have been processed but not delivered are stored in a secure location.

Clients sign for payrolls that are delivered via courier, or UPS, or picked up at the DPS office. DPS maintains a log to record each client that picks up its payroll. The client provides the name of the individual authorized to pick up the payroll. DPS confirms the individual's identification and signature. Payroll is only provided to authorized individuals.

ACH Distribution

HRAnswerlink logs payrolls received, processed, and completed is used to record the creation and submission of client's ACH files. ACH files are generated daily and submitted for processing per the National Automated Clearing House Association (NACHA) rules. The following procedures are followed to ensure the accuracy and completeness of the data.

- At the end of the day, the General Manager sends out an e-mail notice closing payroll processing for the day and prints a log from HRAnswerlink of all payrolls submitted for processing.
- The General Manager and a Payroll Processor access PayChoice and tag all ACH files for transfer for NACHA processing. As the files are tagged, the two employees make a note on the HRAnswerlink log. Discrepancies between the payrolls submitted for processing the ACH files tagged are investigated and resolved prior to transmitting the files to the bank. After all ACH files are tagged, the General Manager and Payroll Processor print a report from PayChoice of all ACH transactions by person.
- The General Manager logs onto DPS' bank's secure website and uploads the ACH files. The General Manager ensures the ACH file is complete by agreeing it to the totals generated from PayChoice. Discrepancies are resolved immediately.
- The General Manager logs onto the bank's secure website and uploads a positive pay file. Daily, the President and Tax Manager receive an email from the bank with checks submitted for processing without a corresponding positive pay file. The bank will not honor a check without a corresponding positive pay file or an approval from the President or Tax Manager.

TAX FILING AND TAX PAYMENT PROCESSING CONTROLS

PayChoice Reporting and Tax Table Set Up

Payroll Associates maintains the tax tables in the PayChoice software. DPS licenses PayChoice. As required, Payroll Associates updates the PayChoice federal, state and local tax tables and rates. The President updates the PayChoice software on DPS computers via a download of the updated tax tables from Payroll Associates.

PayChoice automatically calculates federal, state, and local income tax withholdings and social security and Medicare tax withholdings; calculates employer social security, Medicare, federal unemployment, and state unemployment taxes; and records the tax liabilities in a pending list according to due date for payment.

Tax liability reports are distributed to each client with each payroll processed.

Tax Preparation and Filing

DPS uses PayChoice to prepare client tax filings. Based on the taxing information entered in during payroll implementation, the PayChoice software automatically calculates clients' taxes from the PayChoice tax tables and prepares the tax filings.

Checklists are maintained for every client to ensure that all client tax filings are produced, signed and shipped to the appropriate tax authority. The checklist includes each tax preparation

client and notations are made for each client as returns are generated, signed and submitted. The checklists are retained for reference.

Tax Payment Distributions

DPS offers clients two options for making tax payments. For clients choosing DPS in-house tax service, DPS will process client payroll tax liabilities payments to the respective agencies. DPS uses the Electronic Federal Tax Payment System (EFTPS) to submit federal payroll tax deposits on behalf of their clients. DPS holds the tax payments in an escrow account awaiting payment to the tax authorities. For clients choosing to manage their own tax deposits, DPS offers signature ready tax checks. DPS creates the tax checks paid to the order of the proper agency, and the client is responsible for timely deposit.

To ensure that client federal, state, and local tax payments are accurately recorded for payment, the DPS staff perform the following procedures:

- At the end of each day, the General Manager prints a summary of all tax liabilities from PayChoice and provides it to the Tax Manager.
- The Tax Manager runs a PayChoice report of tax liability by client by agency and imports it into QuickBooks.
- The Tax Manager reconciles the QuickBooks import to the General Manager's summary of all tax liabilities.
- The President reviews the reconciliation to ensure all tax liabilities are recorded.

The following day, the Tax Manager reviews the tax liabilities due for payment in PayChoice. The Tax Manager reviews the Payments screen in PayChoice to determine the federal and state tax deposits that need to be submitted. Payments due within two days are tagged for payment. The Tax Manager will tag and process the payments and submit via the EFTPS Batch Filer web application (federal) or DPS' bank's secured website (state). EFTPS requires a user ID and password and transmits electronically through Secure Socket Layer (SSL) technology with 128-AES encryption to protect the completeness and security of the data. After payments are made and files are uploaded to the IRS and state, the Tax Manager runs a report from PayChoice detailing the payments and imports into QuickBooks. The CFO reviews the EFTPS confirmations, the QuickBooks import, and the bank statements to verify the payments made agree to the payments recorded. At month end, the President performs an official bank reconciliation of the tax escrow account.

Quarterly, QuickBooks is reconciled to a PayChoice report of client tax liability. If all payments have been made, the accounts should have a zero balance.

INFORMATION SYSTEM SECURITY AND GENERAL COMPUTER CONTROLS

DPS understands the critical and sensitive nature of the data processed and transmitted daily. Industry proven standards are employed to protect client data including 128-AES encryption technology and multiple backups including an offsite location. Physical access to computer equipment, storage media and program documentation is restricted to properly authorized individuals. Technology is employed to ensure that data is secure and that appropriate access to information is only provided to authorized users.

DPS' critical computer-related tasks are:

- Collecting and processing client company payroll data
- Creating electronic banking transactions to:
    - Make direct deposit payments into client employee accounts
    - Make payments to federal, state and local tax collection agencies
- Printing checks and direct deposit vouchers
- Printing and/or emailing reports

The PayChoice software uses one database for payroll, tax filing, and tax payments. The majority of DPS clients utilize the web-based PayChoice Online product and do not directly access DPS resources. Once on the DPS website, the client is immediately redirected to the Payroll Associates network. Once the client has entered its pay data on Payroll Associates' secure servers, DPS retrieves the data directly from Payroll Associates and processes the payroll.

IT Outsourcing

DPS contracts with the Technology Assurance Group (TAG) to provide 24/7 IT services. TAG provides the following services:

- Monitors disk space, memory, and performance. TAG receives and investigates automatic alerts for unusual performance variances. Alert information is provided to the President.
- Monitors services including data backup, Windows updates, and Microsoft Internet Information Services (IIS). If an error occurs with a service, TAG will receive an automated alert. The incident is investigated, resolved, and reported to the President.
- TAG provides consultative services on an as needed basis.

TAG provides a monthly report for performance and services to DPS. The President actively monitors TAG activities and system performance.

Logical Access

Access to computers and data is granted to individuals based on their job responsibilities. The President is the network security administrator and is responsible for overseeing network access and security.

Remote access to the DPS network is limited based on job responsibilities. DPS employees can remotely access the DPS network through Citrix's GoToMyPC. GoToMyPC protects data using 128-AES encryption. Employees must enter a unique user name and password to login to their GoToMyPC account; from there, employees must enter a user name and password to login into the network.

TAG employees remotely accessing the server are required to authenticate to the network and the server. TAG logs and monitors remote access to the server.

Unique network user IDs and passwords are assigned to each individual. Network password rules are established according to DPS security policy that requires:

- Password complexity
- Minimum password length
- Passwords expiration
- Account lockout after specified number of attempts
- Password repeat restrictions

The President sets the user's initial network password. Upon initial login, the user is required to change his/her password.

PayChoice is only loaded on the computers of personnel that require it as part of their job responsibilities. Access to edit payroll data, process payroll, print checks, and print payroll reports is restricted to individuals with PayChoice loaded on their computers.

Unique user IDs cannot be issued to DPS employees for the PayChoice software due to system limitations of the application. Due to these limitations, there is not a method to segregate user's access within PayChoice.

DPS has implemented manual controls in the payroll, tax filing, and tax payment processes to compensate for the access limitations.

Individual access capabilities are removed immediately upon the termination of employment or change of responsibilities.

Physical Access

DPS office location offers the following features to ensure the safety of its employees and the safeguarding of the DPS' assets:

- A monitored security system including motion sensors that is activated at all times when personnel are not present.
- The front desk is monitored and a bell chimes whenever the front door is opened.
- During non-business hours, employees can only access the DPS office using a key FOB.
- All file cabinets/file rooms that contain client or client payroll information are locked daily prior to the close of business.
- The server room containing the PayChoice server is secured by a combination door lock and can only be accessed by authorized personnel to ensure that all vital electronic hardware is secure and inaccessible to unauthorized employees and building staff.
- DPS has installed a separate and dedicated air conditioning unit in the server room to maintain the optimal operating temperature.
- The office areas and server room have fire detection equipment that is inspected and tested periodically.
- DPS workstations are protected by McAfee anti-virus software. The server is protected with AVG 2011 Network Edition. Anti-virus software is updated periodically on the server and workstations.
- The server is connected to an Uninterruptible Power Supply (UPS) that provides reserve operating time to allow the server to properly shutdown in the event of a power disruption. DPS also has a generator in case of extended power disruptions.

Backup Procedures

DPS uses the following backup procedures to ensure the integrity and continuity of the PayChoice Windows 2008 Server data:

- A mirror drive is used to make simultaneous copies of all PayChoice data in case of failure of the main drive. TAG is automatically alerted to failures in the mirror drive. Alerts are investigated, resolved, and reported to the President.
- Every sixty minutes a virtual image of the Windows 2008 Server is copied to a second server in case of failure of the main server. TAG is automatically alerted to failures in the backup. Alerts are investigated, resolved, and reported to the President.
- Nightly, a backup is performed and forwarded to Venyu. The nightly backup is retained off-site for a seven day period.
- Annually, a backup tape is made and stored on-site.

Periodically, as part of disaster recovery testing, DPS and TAG test the backup restore process through table top exercises and remote testing.

Change Management

The President reviews and approves all software updates, modifications and upgrades.

Updates or modifications to software that is used across DPS' network must be applied after backup procedure has run and before production begins for the current day.

Major upgrades to software applications must be installed and tested in a stand-alone environment. Once the upgrade has been tested and approved, the President will coordinate with TAG for the upgrade to be installed on DPS' network.

Documentation/confirmation of updates, modifications and upgrades is maintained in a folder, specific to each application.

SUBSERVICE ORGANIZATIONS

DPS uses a subservice organization to provide support services as described below. Section III only includes the controls and related control objectives of the Company and excludes the control objectives and related controls of the subservice organization.

Subservice Organization	Function	Related Control Objectives
Payroll Associates	Provider of PayChoice Software	18
Cachet Banq	Provider of ACH Processing	3, 8

COMPLEMENTARY USER ENTITIES CONTROLS

DPS' processes and systems were designed under the assumption that certain controls would be implemented by user entities (clients). In certain situations, the application of specific controls by user entities is necessary to achieve certain control objectives in this report. The complementary user entity controls are listed in Section III of this report.

CONTROL OBJECTIVES AND ACTIVITIES

Control Objective 1: Controls provide reasonable assurance that new clients are set up and converted completely and accurately.

Ref	DPS' Controls
1.01	DPS employees use a standardized Implementation Checklist to gather payroll, tax filing, and tax payment information for new clients. An implementation team meeting is held to discuss new client information and an Installation Checklist is completed.
1.02	For new clients with previous payroll history, the Implementation Team performs a balancing process for wages and tax liabilities.
1.03	The General Manager will review and approve the completed installation checklist.
1.04	The President reviews and converts new clients from the conversion tab to the active client list in Helios.
1.05	DPS pre-notes the client's payroll to confirm the accuracy of the banking information provided.

Complementary User Entity Controls

- Clients are responsible for performing a detailed review of the first payroll.

Control Objective 2: Controls provide reasonable assurance that payroll transactions are originated from authorized sources.

Ref	DPS' Controls
2.01	Clients access PayChoice Online through unique logins and passwords provided by PayChoice Online.
2.02	The Payroll Processors will not process faxed or called in payroll that is not consistent with the payroll schedule or from an unknown or unauthorized individual.

Complementary User Entity Controls

- Clients are responsible for restricting access to electronic payroll data and the PayChoice website.
- Clients are responsible for pay data submitted via phone or fax, as the data is not submitted over secure or dedicated lines. Clients are responsible for ensuring the controls totals for these submissions are accurate.

Control Objective 3: Controls provide reasonable assurance that data transmissions with third parties and/or client facilities are complete and secure.

Ref	DPS' Controls
3.01	Clients transfer payroll to DPS electronically through Secure Socket Layer (SSL) technology with 128-bit encryption to help ensure the completeness and security of the transmitted data.
3.02	Encrypted payroll file is sent to the client via email or is retrieved by the client from DPS' secure web site (PayChoice Online).
3.03	The ACH file is uploaded to Cachet Banq's secure website. Two DPS personnel verify the ACH File Report control totals with the Cachet Banq confirmation screen print.
3.04	The Tax Manager will tag and process the EFTPS payments via the EFTPS Batch Filer web application. EFTPS requires a user ID and password and transmits electronically through Secure Socket Layer (SSL) technology with 128-bit AES encryption to protect the completeness and security of the data.
3.05	The Tax Manager will tag and process state tax payments through the bank's (Wells Fargo) secure website.

Complementary User Entity Controls

- Clients are responsible for restricting access to electronic payroll data and the PayChoice website.
- Clients are responsible for pay data submitted via phone or fax, as the data is not submitted over secure or dedicated lines. Clients are responsible for ensuring the controls totals for these submissions are accurate.

Control Objective 4: Controls provide reasonable assurance that payroll processing is authorized, completed, and data transmitted in accordance with client specifications.

Ref	DPS' Controls
4.01	Clients that submit payroll online are required to go through a multi-step verification process to ensure that the data they have entered is correct.
4.02	The Payroll Processors will verify the data received from the client agrees to the data input into PayChoice by comparing it to control totals the client provides.

Complementary User Entity Controls

- Clients are responsible for ensuring that the client-authorized payroll contact is available for payroll input.
- Clients are responsible for the calculation of timesheet payroll totals.
- Client are responsible for completing the PayChoice multi-step verification process. Clients are responsible for comparing:
    - Control totals to the accumulated totals calculated,
    - Employees paid to employees to be paid in the period, and
    - Payroll reports to expected payroll.

Control Objective 5: Controls provide reasonable assurance that payroll transaction changes are recorded completely and accurately.

Ref	DPS' Controls
5.01	The General Manager, or a qualified payroll auditor, reviews every payroll and ensures the changes identified on payroll submission forms are applied to the current payrolls.

Complementary User Entity Controls

- Clients are responsible for communicating payroll changes and ensuring the information provided is complete and accurate. Clients are responsible for notifying DPS of changes.
- Clients are responsible for ensuring that the banking information provided is complete and accurate. Clients are responsible for notifying DPS of changes.
- Clients are responsible for communicating changes to individuals authorized to make changes on behalf of the client.

Control Objective 6: Controls provide reasonable assurance that payroll transactions are processed according to schedules and any deviations are documented and approved.

Ref	DPS' Controls
6.01	Daily the General Manager monitors the payrolls received, processed, and completed for delivery.
6.02	The Payroll Processors and General Manager continuously monitor the payroll process for errors. All errors must be resolved to complete the processing.

Control Objective 7: Controls provide reasonable assurance that payroll checks, direct deposit vouchers and reports are produced and distributed completely, accurately and in accordance with client specifications.

Ref	DPS' Controls
7.01	When a payroll is processed for the client, a password protected and encrypted file is created in PayChoice which contains images of the client's payroll reports and checks.
7.02	Checks and vouchers print on blank check stock that is specifically designed and printed with industry standard security protection.
7.03	Once a payroll is completed, the Pack-Out Specialist will confirm the delivery method (e.g. courier, pickup, UPS) and any special delivery requirements, assemble the payroll package, confirm the payroll package is complete, and forward the package according the delivery method.
7.04	Payrolls that have been processed but not delivered by the end of the day are stored in a secure location.
7.05	Clients sign for payrolls which are delivered via courier, UPS, or picked up at DPS' office. DPS maintains a log to record each client that picks up its payroll. The client provides the name of the individual authorized to pick up the payroll. DPS confirms the individual's identification and signature. Payroll is only provided to authorized individuals.

Complementary User Entity Controls

- Clients are responsible for the timely reporting of payroll discrepancies and issues to DPS.
- Clients are responsible for the timely reconciliation of client bank statement activity.
- Clients are responsible for ensuring sufficient funds are available in the specified bank account for the disbursement of funds.
- Clients are responsible for ensuring the payroll check date is later than, or the same as, the payroll processing date.
- Clients are responsible for the retention of payroll output to satisfy federal, state, and local authorities.

Control Objective 8: Controls provide reasonable assurance that payroll ACH payments are complete and paid to the authorized individuals.

Ref	DPS' Controls
8.01	Discrepancies between the payrolls submitted for processing the ACH files tagged are investigated and resolved prior to transmitting the files to the bank.
8.02	Daily, the President and Tax Manager receive an e-mail from the bank with checks submitted for processing without a corresponding positive pay file. The bank will not honor a check without a corresponding positive pay file or an approval from the President or Tax Manager.

Complementary User Entity Controls

- Clients are responsible for ensuring that the banking information provided is complete and accurate. Clients are responsible for notifying DPS of changes.

Control Objective 9: Controls provide reasonable assurance that payroll tax set-up information is setup completely and accurately.

Ref	DPS' Controls
9.01	The President updates the PayChoice software on DPS computers via a download of the updated tax tables from Payroll Associates, Inc.

Complementary User Entity Controls

- Clients are responsible for communicating tax changes and ensuring the information provided is complete and accurate. Clients are responsible for notifying DPS of changes.
- Clients are responsible for ensuring tax filings are accurate and complete including follow up with taxing authorities when necessary.

Control Objective 10: Controls provide reasonable assurance that payroll tax output is complete and accurate.

Ref	DPS' Controls
10.01	PayChoice automatically calculates federal, state, and local income tax withholdings and social security and Medicare tax withholdings; calculates employer social security, Medicare, federal unemployment, and state unemployment taxes; and records the tax liabilities in a pending list according to due date for payment.
10.02	Based on the taxing information entered in during payroll implementation, the PayChoice software automatically calculates clients' taxes from the PayChoice tax tables and prepares the tax filings.

Complementary User Entity Controls

- Clients are responsible for communicating tax changes and ensuring the information provided is complete and accurate. Clients are responsible for notifying DPS of changes.
- Clients are responsible for ensuring tax filings are accurate and complete including follow up with taxing authorities when necessary.

Control Objective 11: Controls provide reasonable assurance that client's quarterly federal, state, and local payroll tax returns are filed completely, accurately, and timely.

Ref	DPS' Controls
11.01	The President reviews the QuickBooks and PayChoice tax liability reconciliation to ensure all tax liabilities are recorded on a daily basis.
11.02	Quarterly and annual checklists are maintained for every client to ensure that all client tax filings are produced, signed and shipped to the appropriate tax authority.
11.03	Quarterly, QuickBooks is reconciled to a PayChoice report of client tax liability.

Complementary User Entity Controls

- Clients are responsible for communicating tax changes and ensuring the information provided is complete and accurate. Clients are responsible for notifying DPS of changes.
- Clients are responsible for ensuring tax filings are accurate and complete including follow up with taxing authorities when necessary.

Control Objective 12: Controls provide reasonable assurance that the disbursement of funds to pay tax liabilities is complete and accurate and made in accordance with tax agency requirements.

Ref	DPS' Controls
12.01	On a daily basis, President reviews QuickBooks, PayChoice daily activity, and the bank statements to verify the payments made agree to the payments recorded.

Complementary User Entity Controls

- Clients are responsible for ensuring sufficient funds are available to collect and disburse funds to pay their tax liabilities timely.
- Clients are responsible for reviewing tax liability reports, filings, and tax distributions.

Control Objective 13: Controls provide reasonable assurance that the tax escrow is properly accounted for and the bank accounts are reconciled in a timely manner.

Ref	DPS' Controls
13.01	Monthly, the CFO reconciles the bank accounts and the President performs a secondary review of the reconciliations.
13.02	Quarterly, the President agrees tax escrow funds impounded (deposits) to tax escrow funds due to agencies (liabilities). Differences are investigated.

Control Objective 14: Controls provide reasonable assurance that IT outsourcing is properly monitored.

Ref	DPS' Controls
14.01	The President actively monitors service providers to ensure service providers comply with service level agreements, other contracted obligations, and to effectively assess the quality of the services.

Control Objective 15: Controls provide reasonable assurance that logical access to the systems, programs and data is only granted to properly authorized individuals.

Ref	DPS' Controls
15.01	Access to computers and data are granted to individuals based on their job responsibilities.
15.02	Remote access to the DPS network is limited based on job responsibilities.
15.03	Remote access requires passwords and end-to-end user authentication.
15.04	TAG employees remotely accessing the server are required to authenticate to the network and the server.
15.05	Unique network user IDs and passwords are assigned to each individual user.
15.06	Network password rules are established according to DPS security policy.
15.07	Access to edit payroll data, process payroll, print checks, and print payroll reports is restricted to individuals with PayChoice loaded on their computers.
15.08	Individual access capabilities are removed immediately upon the termination of employment or change of responsibilities.

Control Objective 16: Controls provide reasonable assurance that procedures are in place to ensure the protection of physical assets (e.g. computer equipment, storage media).

Ref	DPS' Controls
16.01	A monitored security system including motion sensors that is activated at all times when personnel are not present.
16.02	During non-business hours, employees can only access the DPS office using a key. The lock is re-keyed upon the termination of an employee.
16.03	All file cabinets/file rooms that contain client or client payroll information are locked daily prior to the close of business.
16.04	The server room containing the PayChoice server is secured by a combination door lock and can only be accessed by authorized personnel to ensure that all vital electronic hardware is secure and inaccessible to unauthorized employees and building staff.
16.05	DPS has installed a separate and dedicated air conditioning unit in the server room to maintain the optimal operating temperature.
16.06	The office areas and server room have fire detection equipment that is inspected and tested periodically.
16.07	DPS workstations are protected by McAfee anti-virus software. The server is protected with AVG 8.5 Network Edition. Anti-virus software is updated periodically on the server and workstations.
16.08	The server is connected to an Uninterruptible Power Supply (UPS) that provides reserve operating time to allow the server to properly shutdown in the event of a power disruption. DPS also has a generator in case of extended power disruptions.

Control Objective 17: Controls provide reasonable assurance that systems, programs and data are backed up completely and stored securely.

Ref	DPS' Controls
17.01	Every sixty minutes a virtual image of the Windows 2003 Server is copied to another server in case of failure of the main server. TAG is automatically alerted to failures in the backup. Alerts are investigated, resolved, and reported to the President.
17.02	Nightly, a backup is performed and forwarded to Venyu. The nightly backup is retained off-site for a seven day period.
17.03	Daily, a backup is made to an external drive and transmitted to the TAG site in Maryland.
17.04	Periodically, as part of disaster recovery testing, DPS and TAG test the backup restore process through table top exercises and remote testing.

Control Objective 18: Controls provide reasonable assurance that changes to systems are authorized, tested, approved, properly implemented and documented.

Ref	DPS' Controls
18.01	The President must review and approve all software updates, modifications, and upgrades.
18.02	Updates or modifications to software that is used across DPS' network must be applied after backup procedure has run and before production begins for the current day.