



HR | Payroll | Benefits | Insurance

PAYCHEX, INC.

SOC 1[®] REPORT

**Paychex, Inc.'s Description of Its Payroll Processing System for
Processing User Entities' Transactions Throughout the period
October 1, 2021 to September 30, 2022**
*(This report should be reviewed in conjunction with the Information
Technology Services System SOC 1 Report)*

Prepared in accordance with AT-C Section 320

This report is intended solely for use by the management of Paychex, Inc., its user entities, and the independent auditors of its user entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

PAYCHEX, INC.
SOC 1 REPORT
PAYROLL PROCESSING SYSTEM
FOR THE PERIOD OF OCTOBER 1, 2021 THROUGH SEPTEMBER 30, 2022
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SECTION I

**INDEPENDENT SERVICE AUDITOR'S REPORT
PROVIDED BY PWC LLP**

This report is intended solely for use by the management of Paychex, Inc., its user entities, and the independent auditors of its user entities, and is not intended to be, and should not be, used by anyone other than these specified parties.



Report of Independent Service Auditors

To the Management of Paychex, Inc.

Scope

We have examined Paychex, Inc.'s (the "Service Organization") description of its Payroll Processing system (the "system") entitled "Paychex, Inc.'s Description of Its Payroll Processing System" for processing user entities' transactions throughout the period October 1, 2021 to September 30, 2022 (the "description") and the suitability of the design and operating effectiveness of the controls included in the description to achieve the related control objectives stated in the description, based on the criteria identified in "Paychex, Inc.'s Assertion" (the "assertion"). The controls and control objectives included in the description are those that management of the Service Organization believes are likely to be relevant to user entities' internal control over financial reporting, and the description does not include those aspects of the system that are not likely to be relevant to user entities' internal control over financial reporting.

The information included in Section V "Other Information Provided by Paychex, Inc. That is Not Covered by the Service Auditors' Report" is presented by management of the Service Organization to provide additional information and is not a part of the description. Information about the Service Organization's business continuity and recovery and privacy statement has not been subjected to the procedures applied in the examination of the description and of the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description.

The Service Organization uses a subservice organization for information technology service (common IT services) in support of its Payroll Processing system. The description in Section III includes only the control objectives and related controls of the Service Organization and excludes the control objectives and related controls of the subservice organization. The description also indicates that certain control objectives specified in the description can be achieved only if complementary subservice organization controls assumed in the design of the Service Organization's controls are suitably designed and operating effectively, along with the Service Organization's related controls. Our examination did not extend to controls of the subservice organization, and we have not evaluated the suitability of design or operating effectiveness of such complementary subservice organization controls.

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 Service Organization's controls are suitably designed and operating effectively, along with the Service Organization's related controls. 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, the Service Organization has provided an assertion about the fairness of the presentation of the description and suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description. The Service Organization is responsible for preparing the description and the assertion, including the completeness, accuracy, and method of presentation of the description and the assertion, providing the services covered by the description, specifying the control objectives and stating them in the description, identifying the risks that threaten the achievement of the control objectives, selecting the criteria 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.



Service auditors' 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 our 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, 2021 to September 30, 2022. 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 service organization's controls to achieve the related control objectives stated in the description involves

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

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements related to the engagement.

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 or a subservice 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 or a subservice 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.



Opinion

In our opinion, in all material respects, based on the criteria described in Paychex, Inc.'s Assertion in Section II,

- a. the description fairly presents the system that was designed and implemented throughout the period October 1, 2021 to September 30, 2022.
- b. the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period October 1, 2021 to September 30, 2022 and subservice organizations and user entities applied the complementary controls assumed in the design of the Service Organization's controls throughout that period.
- c. the controls operated effectively to provide reasonable assurance that the control objectives stated in the description were achieved throughout the period October 1, 2021 to September 30, 2022 if complementary subservice organization and user entity controls assumed in the design of the Service Organization's controls operated effectively throughout that period.

Restricted use

This report, including the description of tests of controls and results thereof in Section IV, is intended solely for the information and use of management of Paychex, Inc., user entities of the system during some or all of the period October 1, 2021 to September 30, 2022, 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 subservice organizations and user entities of the system 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. If report recipients are not user entities that have contracted for services with Paychex, Inc. for the period October 1, 2021 to September 30, 2022 or their independent auditors (herein referred to as a "non-specified user") and have obtained this report, or have access to it, use of this report is the non-specified user's sole responsibility and at the non-specified user's sole and exclusive risk. Non-specified users may not rely on this report and do not acquire any rights against PricewaterhouseCoopers LLP as a result of such access. Further, PricewaterhouseCoopers LLP does not assume any duties or obligations to any non-specified user who obtains this report and/or has access to it.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

November 22, 2022

SECTION II

PAYCHEX, INC.'S ASSERTION

This report is intended solely for use by the management of Paychex, Inc., its user entities, and the independent auditors of its user entities, and is not intended to be, and should not be, used by anyone other than these specified parties.



HR | Payroll | Benefits | Insurance

Paychex, Inc.'s Assertion

We have prepared the description of Paychex, Inc.'s Payroll Processing system (the "system") entitled "Paychex, Inc.'s Description of Its Payroll Processing System" for processing user entities' transactions throughout the period October 1, 2021 to September 30, 2022 (the "description") for user entities of the system during some or all of the period October 1, 2021 to September 30, 2022, 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 subservice organizations and user entities of the system themselves, when assessing the risks of material misstatement of user entities' financial statements.

Paychex, Inc. uses a subservice organization for information technology services (common IT services) in support of its Payroll Processing system. The description includes only the control objectives and related controls of Paychex, Inc. and excludes the control objectives and related controls of the subservice organization. The description also indicates that certain control objectives specified in the description can be achieved only if complementary subservice organization controls assumed in the design of our controls are suitably designed and operating effectively, along with Paychex, Inc.'s related controls. The description does not extend to controls of the subservice organization.

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 Paychex, Inc.'s controls are suitably designed and operating effectively, along with Paychex, Inc.'s related controls. The description does not extend to controls of the user entities.

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

- a. the description fairly presents the system made available to user entities of the system during some or all of the period October 1, 2021 to September 30, 2022 for processing their transactions as it relates to controls that are likely to be relevant to user entities' internal control over financial reporting. The criteria we used in making this assertion were that the description
 - i. presents how the system made available to user entities of the system was designed and implemented to process relevant user entity transactions, including, if applicable,
 - (1) the types of services provided, including, as appropriate, the classes of transactions processed.
 - (2) the procedures, within both automated and manual systems, by which those services are provided, including, as appropriate, procedures by which transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports and other information prepared for user entities of the system.
 - (3) the information used in the performance of the procedures including, if applicable, related accounting records, whether electronic or manual, and supporting information involved in initiating, authorizing, recording, processing, and reporting transactions; this includes the correction of incorrect information and how information is transferred to the reports and other information prepared for user entities.
 - (4) how the system captures and addresses significant events and conditions other than transactions.

- (5) the process used to prepare reports and other information for user entities.
 - (6) services performed by a subservice organization, if any, including whether the carve-out method or the inclusive method has been used in relation to them.
 - (7) the specified control objectives and controls designed to achieve those objectives including, as applicable, complementary user entity controls and complementary subservice organization controls assumed in the design of the service organization's controls.
 - (8) other aspects of our control environment, risk assessment process, information and communications (including the related business processes), control activities, and monitoring activities that are relevant to the services provided.
- ii. includes relevant details of changes to the system during the period covered by the description.
 - iii. does not omit or distort information relevant to the system, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities of the system and their user auditors, and may not, therefore, include every aspect of the system that each individual user entity of the system and its auditor may consider important in its own particular environment
- b. the controls related to the control objectives stated in the description were suitably designed and operating effectively throughout the period October 1, 2021 to September 30, 2022 to achieve those control objectives if subservice organizations and user entities applied the complementary controls assumed in the design of Paychex, Inc.'s controls throughout the period October 1, 2021 to September 30, 2022. The criteria we used in making this assertion were that
- i. the risks that threaten the achievement of the control objectives stated in the description have been identified by management of the service organization.
 - ii. the controls identified in the description would, if operating effectively, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved.
 - iii. the controls were consistently applied as designed, including whether manual controls were applied by individuals who have the appropriate competence and authority.

SECTION III

PAYCHEX, INC.'S DESCRIPTION OF ITS PAYROLL PROCESSING SYSTEM

This report is intended solely for use by the management of Paychex, Inc., its user entities, and the independent auditors of its user entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

PAYCHEX, INC.'S DESCRIPTION OF ITS PAYROLL PROCESSING SYSTEM**SCOPE OF REPORT**

This document was prepared according to the guidance contained in the American Institute of Certified Public Accountants' (AICPA's) Auditing Standards Board standards and related interpretations and other applicable standards.

This report describes Paychex, Inc.'s ("Paychex" or "the Company") Payroll Processing system. AT-C 320 defines "system" as the policies and procedures designed, implemented, and documented by management of the service organization to provide user entities with the services covered by the service auditor's report. Paychex's description of its system identifies the product services covered, the period to which the description relates, the control objectives specified by management, and the related controls.

As part of its overall SOC 1 program Paychex's management sets and determines the scope and timing of this report. This report addresses Paychex's Payroll Processing system, which includes payroll processing using its Core Payroll and Preview[®] applications. The Payroll Processing system also includes selected controls for Paychex Flex[®] Payroll, a self-service internet payroll portal that facilitates the submission of payroll online to be processed by the Core Payroll application. This report has been prepared to provide information on the Company's controls that management believes are likely to be relevant to the internal controls for financial reporting of Core Payroll, Paychex Flex Payroll, and Preview clients. For the purposes of this report, payroll processing service includes calculation and delivery of employee pay, including the calculation of federal, state, and local payroll taxes and the production of management reports. The additional products and services offered by Paychex as listed in Section V of this report are not within the scope of this report.

This report features the services provided by Paychex's Payroll Processing system and focuses on control objectives as they may be relevant to the internal controls for financial reporting for Paychex's clients using the Payroll Processing system. The scope of the report covers the business processes that Paychex has determined are significant to its clients from a financial reporting perspective and related processes specific to supporting the Payroll Processing System. Paychex management is responsible for the identification of the control objectives, risks, and for the manual and automated controls placed into operation to achieve those objectives. This includes the call centers utilized for the Payroll Processing system.

This report was developed to cover the majority of Payroll Processing system clients. Therefore, the focus was on those significant business processes and controls that are common to the majority of the Payroll Processing system clients of Paychex. New client implementations, including the initial sales process, review of client contracts/agreements, and the onboarding of new clients to the respective payroll application systems, are outside the scope of this report. In addition, any unique client situations that are outside of the normal business processes and controls may not be covered by this report. These unique client situations would need to be reviewed individually to determine if they were within the scope of this report.

Subservice Organization

Paychex uses the Paychex Product Development & Information Technology (PD&IT) function to support the Payroll Processing system. PD&IT is divided into functional organizations to meet the technical needs of the various Paychex business units. Paychex's PD&IT function is responsible for information technology services that are common to the Paychex systems and services (common IT services). The description of the PD&IT function included in this report is intended to provide the reader with an understanding of how the PD&IT services are delivered and managed.

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Common IT Services

The Payroll Processing system is hosted at the Corporate Data Centers (CDCs) near Rochester, NY. The Information Technology function is responsible for various support functions, including application, operating system software, and database change management; network security; operational monitoring and problem management; logical access; physical access; environmental systems; data backup; and scheduling. The Information Technology function manages the CDC facilities and supports the information technology services for various Paychex's business units. These processes and controls are managed and delivered as a common set of services to various Paychex business units and are not included within the scope of this report. These common IT services are addressed in Paychex's Information Technology Services system SOC 1 report. The controls in this report rely on general information technology controls in the Information Technology Services system SOC 1.

Table 1 (Internal Control Processes) outlines the PD&IT function control processes for common IT services addressed in the Information Technology Services system SOC 1 report and the control processes that specifically support the Paychex Payroll Processing system which are included in the scope of this report.

Table 1: Internal Control Processes – Paychex, Inc.'s Information Technology Services System SOC 1 Report and Payroll Processing System SOC 1 Report

Process Name	Paychex, Inc.'s Information Technology Services System SOC 1 Report	Payroll Processing System SOC 1 Report
Change Management		
a. Application	•	
b. Operating System (OS) Software	•	
c. Database	•	
Network Security, Operational Monitoring and Problem Management	•	
Logical Access		
a. Application and Database Access	•	
b. Operating System Access	•	
c. Network Logical Access	•	
Physical Access		
a. Physical Access – CDCs	•	
b. Physical Access – Check Printing and Distribution Areas		•
Environmental Systems	•	
Data Backup	•	

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Process Name	Paychex, Inc.'s Information Technology Services System SOC 1 Report	Payroll Processing System SOC 1 Report
Scheduling	•	
Preview Client Transmissions		•
Client Input		•
Payroll Data Processing		•
Payroll Tax Withholdings		• ¹
Checks and Output Reports		•

¹ Tax rate changes require PD&IT approval before the change is established.

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OVERVIEW OF PAYROLL PRODUCT OFFERINGS

Paychex is a leading provider of integrated human capital management (HCM) solutions for human resource (HR), payroll, benefits, and insurance services. Backed by 50 years of industry expertise, Paychex served greater than 730,000 payroll and Professional Employer Organization (PEO) clients as of May 31, 2022. In fiscal 2022, the Company reported \$4.55 billion in service revenues. Payroll processing is a key aspect of the Paychex service portfolio. The Company's payroll services include the calculation, preparation, and delivery of employee payroll checks, and production of internal accounting records and management reports. Payroll services also include preparation of federal, state, and local payroll tax returns, and the collection and remittance of clients' payroll obligations.

The corporate headquarters, located in Rochester, NY, provide administrative and operational support to Paychex facilities throughout the United States. Staffing at most locations consists of Managers, who manage the operations; Supervisors, who oversee and supervise daily payroll system input and processing; Specialists, who manage the initial client relationship for the first few payrolls and facilitate the ongoing processing of client payroll information; Computer Operators, who process and print payrolls; Fulfillment Specialists, who pack and prepare payroll for delivery; and Sales Managers and Representatives who sell the Company's products and services. All significant computer operation and data processing activities are conducted at the CDCs located near Rochester, NY.

Payroll processing service is provided through the Core Payroll and Preview applications. Payroll processing also includes Paychex Flex Payroll, a self-service internet payroll portal that facilitates the submission of payroll online to be processed by the Core Payroll application.

Paychex Flex® is the proprietary HCM software-as-a-service ("SaaS") platform that helps clients manage the employee life cycle from recruiting and hiring to retirement, providing an integrated suite of solutions including recruiting, onboarding, HR, time and attendance and employee benefits. It uses a single cloud-based platform, with single client and employee records. Clients can select the modules they need and easily add on additional services as they grow. In addition, Paychex Flex presents function-focused analytics throughout the platform, providing HR leaders with data to make informed business decisions. Paychex Flex uses a device-independent design throughout the HCM suite, which allows full functionality of all application components, regardless of device or screen size. Paychex mobile applications add greater value and convenience for clients and their employees by allowing them instant access on their mobile device. Only the payroll services module of Paychex Flex is in scope for this report. Preview can be used as a traditional onsite, PC-based system, which resides at the client, or via a secure web-hosted environment, which resides at Paychex.

Paychex Flex also provides technology-enabled service, with options that include self-service, a 24/7 dedicated service center, an individual payroll specialist, and integrated service via the multi-product service center. In addition, clients can utilize a relationship manager for more personalized service. This flexible platform services all clients and a portion of the Paychex Professional Employer Organization (PEO) business.

Paychex currently offers both a full-service and a self-service payroll model. For the full-service model, clients communicate their payroll information via email, telephone, or fax. A Payroll Specialist will enter the required data and process the payroll for the client through our proprietary software. With the self-service model, clients have online access to Paychex Flex Payroll to submit their own payroll information. All Paychex clients have access to current and historical payroll information, and the ability to transfer processed payroll information to their general ledger accounting software, eliminating manual entries and improving the accuracy of bookkeeping. The payroll information submitted through both input models leverages a centralized payroll module (for tax calculations).

Paychex also offers an integrated suite of services through a Professional Employer Organization (PEO),

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Paychex Business Solutions, Inc. (PBS), for employers that require a complete solution to payroll, including payroll preparation. The reports generated by PBS provide information on payroll processing through the Core Payroll application and include selected Paychex Flex Payroll input controls. Other controls for PBS, as well as Paychex Flex non-payroll functionality and other Paychex ancillary product and services described in Section V are not included within the scope of this Payroll Processing system SOC 1 report.

This report provides information on payroll processing through the Core Payroll and Preview applications. Other controls for additional web-based services, and other Paychex ancillary product and services described in Section V are not included within the scope of this Payroll Processing system SOC 1 report.

The Paychex payroll software applications, computer equipment, and operating procedures are standardized, which allows Paychex to implement enhancements to its payroll products and respond to federal, state, and local statutory changes in an efficient, consistent manner.

Changes to the Control Environment

As part of ongoing operations, Paychex makes changes to its operations and various support groups' roles and responsibilities to better align the business to service clients. While there have been no significant changes to the control environment for the period under examination, this report reflects changes to the Paychex Payroll Processing system that have occurred during the period.

RELEVANT ASPECTS OF PAYCHEX, INC.'S CONTROL ENVIRONMENT, RISK ASSESSMENT PROCESS, AND MONITORING CONTROLS

CONTROL ENVIRONMENT

The Company's overall philosophy on professional conduct and operating style establishes the framework for other aspects of internal control. The control environment at Paychex involves the following areas:

- Integrity and Ethics
- Organization
- Administration

Integrity and Ethics

Paychex Mission Statement

Paychex is guided by the following mission statement "We will be the leading provider of payroll, human resource, and employee benefit services by being an essential partner with America's businesses"

Code of Business Ethics and Conduct

A set of standards for proper business conduct has been published to allow Paychex employees, clients, and suppliers to gain a better understanding of how Paychex wishes to conduct business. The areas addressed include gifts and amenities limits, avoiding misrepresentation, personal conduct, equitable practices, conflicts of interest, and proprietary information. Paychex also has a process for anyone to report corporate misconduct or communicate complaints or concerns. Anyone who has a concern about the conduct of a Paychex executive or other officer, or about the Company's accounting, internal accounting controls, or auditing matters, may communicate that concern directly to the Audit Committee Chairman of the Paychex Board of Directors. Employees may use a toll-free number published on the Company's website to initiate this communication. The Code of Business Ethics and Conduct is documented in the Employee Handbook and updates are communicated to employees annually. New employees receive the Code of Business Ethics and Conduct with their welcome package and must formally acknowledge its receipt via training, which is monitored and tracked by Human Resources. In addition, all employees are required to complete an online training class on the Code of Business Ethics and Conduct annually.

Conflict of Interest Statement

In general terms, a conflict of interest can be considered to exist if personal interests and activities would damage Paychex business interests and activities. Typical conflicts of interest are outlined in the Code of Business Ethics and Conduct. This communication to employees provides clear guidelines for addressing circumstances that may interfere with an employee's role at Paychex.

Organization

Payroll Processing Responsibilities

Paychex offers payroll processing through different Regional Service Centers ("RSC") throughout the United States. Each RSC is similar in staffing and responsibilities and offer multiple products.

After the prospective client meets with Sales and selects Paychex as their payroll provider, they are transferred to the Implementation Team to complete the setup of the new client in the respective payroll application. The Implementation Team is responsible for the setup, training, and successful implementation

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of the new client. They input and load all required client/employee payroll information and personal information into the application so that the client can process their payroll. The Implementation Team can also release some payroll holds but does not have access to print rooms, check stock, or printed payroll information.

After a successful initial payroll, the client is transitioned to a Service Specialist, who is responsible for all aspects of quality client service. The Service Specialist assists the clients with payroll input, verifies totals, and resolves client issues. The Service Specialist contacts clients according to their set schedules in order to obtain payroll data, including salary adjustments, special payments, tax allocations, and employee deductions or adjustments. They key all payroll-related data necessary to process payroll and meet appointment schedules. They can also release some payroll holds but does not have access to print rooms, check stock, or printed payroll information.

Client Service/Implementation Supervisors (“Supervisors”) supervise and direct a group of Service and Implementation Specialists in providing payroll services to the clients. The Supervisors schedule staff, and assign, direct, and monitor the work of assigned personnel to help ensure quality client service. They have access to appointment schedules and can assist Specialists as necessary. Supervisors can release payroll holds and have access to print rooms, check stock, and printed payroll information as required by their job responsibilities.

Client Service/Implementation Managers (“Managers”) oversee Supervisors and all aspects of customer service and implementation, respectively. Managers oversee all operations within their assigned client base and they establish, maintain, and oversee staffing, management systems, and client relations. Manager have unrestricted access within their location and to the payroll applications as required by their job responsibilities.

Paychex has separate processing and fulfillment centers that serve multiple branches at one time. These processing and fulfillment centers are similar in staffing and responsibilities. Some locations may still process and print client payrolls directly in their own location instead of going through the separate processing and fulfillment centers.

Computer Operators maintain and operate production computer processing and printing systems. They monitor the servers and process the incoming payrolls to successful conclusion. The Computer Operators identify payroll processing failures and report them to Enterprise Support and the Client Service/Implementation Supervisors for resolution. Computer Operators coordinate the payroll workflow with Fulfillment Specialists in order to meet daily production requirements. They can release some payroll holds and have access to print rooms, check stock, and printed payroll information as required by their job responsibilities. They do not have payroll system access to enter payroll information.

Fulfillment Specialists assemble payroll packages for delivery and perform other fulfillment-related tasks. They assemble payroll packages according to client number and prepare for delivery based on client specifications. They coordinate and perform timely daily posting of mail and overnight labels and complete all package checklists and confirmations in order to maintain accurate tracking and the security of printed payroll packages. Fulfillment Specialists have view-only access to the Payroll application and have access to printed payroll information as required by their job responsibilities. They do not have access to print rooms or check stock.

Quality Process Supervisors oversee all aspects of computer operations to help ensure the accuracy and quality of the final payroll products. They supervise a staff of Computer Operators and Fulfillment Specialists. They assign and monitor the work of assigned personnel to help ensure quality and productivity standards are met in the production, packing, and delivery of payrolls to clients. They assist with computer operations when necessary and address operational problems or calls to Enterprise Support to ensure proper resolution. They do not have payroll system access to enter payroll information.

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Processing Center Managers supervise processing and fulfillment center staff and oversee all operations within the facility. They establish, maintain, and oversee staffing, management systems, computer processing, and payroll package fulfillment. They also create fulfillment and operating strategies to ensure that Paychex standards of product quality are met or surpassed. The Processing Center Managers have unrestricted access within the processing and fulfillment location and to the payroll applications as required by their job responsibilities.

Product Development & Information Technology (PD&IT) Function

The Paychex PD&IT function reports to the Senior Vice President of Product Development and Information Technology. The Paychex PD&IT function manages the CDC facilities near Rochester, NY and supports the information technology services for various Paychex business units. These processes and controls are managed and delivered as a common set of services to various Paychex business units and are covered in Paychex's Information Technology Services system SOC 1 report. For Additional details refer to the associated ITGC SOC 1 report, which should be read in tandem with this Payroll Services report.

Training Center

Paychex is committed to training as an essential part of the success of each employee. Employees require training to gain the product knowledge and professional skills necessary to maintain the Company's standard of service excellence. To this end, the training center provides the necessary classroom training to employees. Initial training courses include:

- Product Training
- Computer Systems Training
- Sales Training
- Human Resource Services Training
- Management Training

Ongoing training courses are also conducted. Examples include personnel training, advanced product certification training, and computer operations training.

Training center staff consists of personnel skilled in training techniques, as well as the technical aspects of the courses they are instructing.

Administration

Policies

Personnel policies document the principles that guide the conduct of all Paychex employees. Periodic revisions and updates are released each year. All policies are available to employees in the Employee Handbook. The handbook includes policies on the security of information and assets, non-disclosure, conflict of interest, and standards of behavior.

Published Job Descriptions

Formal job descriptions communicate the general function and specific duties of a position. Job descriptions above a certain grade level are evaluated, graded, and approved by the Job Evaluation Committee. The Committee includes representatives from senior management and the Human Resources department. The manager responsible for a position is included in the process. Any employee hired is provided his/her respective job description, which includes written expectations of the position.

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Hiring Practices and Performance Evaluations

The objectives of personnel recruitment are to place qualified persons in respective positions and reduce operating costs by minimizing turnover. To meet these objectives, standard procedures are documented in the procedures manual and are followed when filling any vacancies or new positions.

The objective of a performance appraisal is to measure the performance of an individual against the objective standards established for a specific job. The Company's performance appraisal program provides an equitable method to assess an employee's job performance, discuss performance and actions to improve job performance, identify an employee's development needs, and discuss salary.

Specific procedures dictate the timing of performance evaluations for all employees on an annual basis. A standard form, designed to implement the management by objectives appraisal system, is used. The Human Resources department sends monthly reminders and continues to forward additional reminders until the review is complete.

RISK ASSESSMENT PROCESS

Paychex has placed into operation a risk assessment process to identify and manage risks that could affect the Company's ability to provide reliable information technology service to its customers. This process requires the Company to identify significant risks based on management's knowledge of its operations and input received from the Internal Audit group and the Company's external auditors. For any significant risks identified, management is responsible for implementing appropriate measures to monitor and manage these risks.

MONITORING CONTROLS

Paychex has an Audit Committee that oversees risk assessment and monitoring. Paychex management and supervisory personnel are responsible for monitoring the quality of internal control performance as a routine part of their activities. To assist them in this monitoring, the Company has developed management reports that measure the results of various processes involved in processing payroll transactions.

Client Satisfaction Monitoring

Client Service management communicates regularly with internal staff and clients to discuss issues and client satisfaction. In addition, clients are surveyed after implementation and annually to determine clients' satisfaction with Paychex products and ongoing service delivery.

Enterprise Support

Enterprise Support is the technical support link between business units and the support departments of Information Technology. Enterprise Support's primary function is to monitor the business units' system operations and availability and resolve application issues. Monitoring and support is conducted 24 hours a day, seven days a week.

Internal Audit Function

The Internal Audit department acts as an independent appraiser of the internal control system of Paychex. The primary objective of the department is to assist management with the effective execution of their responsibilities to customers and shareholders by providing management with assessments on internal control design and operating effectiveness as well as recommendations to enhance internal controls.

The Internal Audit department reports directly to the Company's Audit Committee who oversees the Company's internal control structure. The department has been granted the authority to examine all Company records, reports, and documentation, and to use whatever audit procedures are deemed necessary

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to accomplish its objectives. Internal Audit has unrestricted access to the Audit Committee of the Board of Directors and senior management. Senior management is responsible for ensuring operating management gives adequate consideration to the findings and recommendations included in audit reports.

The Director of Internal Audit is a member of the Security Governance Council (SGC) and considers the subject matter discussed during those quarterly meetings when determining the nature, timing and extent of testing related to Information Technology and Information Security.

Security Governance Council

The Security Governance Council's mission is:

- To develop, coordinate, and sustain the organization's enterprise security program
- To coordinate and respond to security risks and incidents; and
- To develop, implement and maintain the organization's enterprise security strategy in alignment or support of business goals and objectives.

The success of the SGC depends upon an objective understanding of the Company's asset protection issues. The SGC meets on a quarterly basis and is chaired by the Chief Information Security Officer. The SGC is comprised of members who understand the business operations, including individuals from Information Technology, Internal Audit, Legal, Human Resources, and Organizational Development, and business unit executives. The recommendations of the SGC are considered when updating the information security policies, procedures, and standards at Paychex.

GENERAL DESCRIPTION OF PAYROLL PROCESSING

Payroll Processing via Core Payroll Application

Paychex provides payroll services to clients nationwide through its network of RSCs and through the internet. Each office independently collects payroll data for clients and has a local area network that is connected to the CDCs near Rochester, NY via a wide area network. The Core Payroll application resides at the CDCs. Paychex employees connect to the Core Payroll application over the network and make updates to client payroll information. The client updates are made to the database, which also resides at the CDCs.

System Overview

System processing encompasses several cycles: data entry, payroll processing, and end-of-day processing. A number of manual and automated data entry options are available to clients, including email, phone, fax, and Paychex Flex Payroll (accessible through PCs, tablets, and mobile devices). If necessary, some of these choices are made available to clients as an alternative to their standard processing selection. Payroll processing involves the calculation of client payrolls. Throughout the day payroll transactions are processed, tax withholdings are calculated, master files are updated, and payroll reports are produced at the individual processing locations. Backup of payroll files is regularly scheduled for retrieval purposes.

Ancillary Systems Related to Payroll Processing

Paychex employs a number of systems in the delivery of services to its clients. Some of these systems are not directly utilized to store client payroll data or perform calculations in support of processing payrolls. As such, not all of the systems used by Paychex are considered within the scope of this report. These ancillary systems include Payroll Tax Administration Services, Employee Payment Services, Regulatory Compliance Services, HR Solutions, Retirement Services Administration, HR Administration Services, Business Services, PEO Services, and Insurance Services. For more information related to those other (out-of-scope) systems, please see Section V: “Other Information Provided by Paychex, Inc.”

Payroll Process Flow – Core Payroll Application

The New Client Setup Process begins after a sale has been made. The Sales Representative is the intercessor between the client and operations personnel from the initial call through to the delivery of the first payroll. This includes preparing and submitting complete load information to the Implementation Team. The Implementation Team receives the new client information from the Sales Representative and then inputs the information in the payroll system. This includes both client-and employee-specific information. All payroll clients are required to have at least one defined payroll contact in Core Payroll prior to activation (3.1). Implementation Specialists reviews new client information for accuracy and completeness within five business days after generating the first payroll using a checklist and then signs off on each case, indicating that the client has been accepted and loaded per client specifications (4.1). The Implementation Team is responsible for helping the client become familiar with Paychex procedures and, if the data entry method selected is phone, email or fax, inputting the first few payrolls. The transition is then made to a Service Specialist, who becomes the client’s primary contact at Paychex and is responsible for inputting the client payroll and making changes to the client master files as requested by the client.

Key payroll transactions are logged, including the date and time of the transaction and the name of the individual who initiated the transaction accurately (3.6, 4.2). Service Specialists receive changes authorized by the client and enter them into the Core Payroll application. Payrolls are processed one at a time as they become ready. The system then computes total compensation, taxes, adjustments, client tax liabilities, and client tax payments. Database files are then updated with the results of the calculations, and a reporting

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database is created. Payroll checks, direct deposit summaries, and other output reports, including journals, summaries, and tax deposit notifications, are printed.

The payroll process can be broken down into the following steps: input, payroll processing, and output.

Input Process

Payentry is a Paychex-developed entry system (part of the Core Payroll application) that is utilized for maintaining client and employee master file information. This system provides preformatted screens and has built-in, online logical edit checks to help ensure the accuracy of the client's payroll information and reduce input errors. During a payroll session, each active employee is presented in a pre-determined order, usually alphabetically by department, to ensure all active employees are considered for payment (3.2). The Service Specialist confirms each employee's name, changes, and pay information based on the information provided by the client via email, phone, or fax. Clients are provided with a timesheet to help them organize their payroll information before it is reported to Paychex. Changes are processed through the Core Payroll application and update the database. The Core Payroll application automatically calculates control totals. The Payroll Specialist (PRS) compares the control totals produced by the application to the information provided by the client to ensure the completeness and accuracy of payroll input (3.3). The following Core Payroll application edit checks ensure the accuracy of direct deposit information upon input:

- Confirmation of bank account number changes
- Active bank relationship
- Active bank account
- Direct deposit allocation amounts between multiple bank accounts (3.4)

The majority of Paychex payroll clients report their payroll each pay period by telephone or online to their assigned PRS. An online appointment schedule is produced for each Service Specialist, listing the clients to be contacted for the day. Service Specialists use the daily appointment schedule contained within Payentry to guide their daily activities. At the scheduled time, the Service Specialist calls the client and utilizes Payentry to enter the payroll information while talking directly to the client's authorized representative (4.3). Paychex policy restricts the discussion of payroll information to only the designated payroll contact(s) on file. All payroll information received from the authorized contact by Paychex are input by the Service Specialist through Payentry. Clients do not have access to Payentry.

Input Process – Paychex Flex Payroll Center

Paychex Flex Payroll is a web application that allows clients to enter payroll and employee information directly into the Preview application using Transport Layer Security (TLS) protocol (2.5). The application requires the continued use of a unique username and password for authentication. In addition, Paychex requires the selection of a multi-factor authentication option to further confirm the identity of the user which can range from answering challenge questions to requiring a one-time password every time a user logs in (3.5). Finally, additional security controls such as the use of a PIN and challenge questions are required for subsequent changes to security information. Application edit checks reduce online data entry errors. Clients are required to identify an administrator to control security access rights for individuals within their company who can view and/or input payroll information. Each Paychex Flex Payroll client is either assigned a dedicated Service Specialist or has 24/7 access to unassigned Services Specialists with the Rapid Response team. Both organizations are responsible for supporting the client and ensuring client needs are met.

Payroll Processing

Payroll processing can further be broken down into the following steps: system holds, payroll calculations, current pay run and YTD update totals, and reporting.

Once the payroll information has all been input and, if the payroll does not have any holds in place, the payroll will be submitted for processing. Payroll holds delay the processing of a client's payroll for a specific reason. Holds can be set automatically in the application, or set manually by Paychex accounting groups, Service Specialists, and Supervisors. For example, a payroll hold can be manually placed to require a review of the specific client payroll before processing. Holds automatically placed by the application include items such as backdated payrolls or 15-minute time delays. A client's payroll will not process until all holds have been cleared and removed from the system (4.5).

Once a payroll is ready (any applicable holds have been released) and the payroll starts to process, a series of payroll calculations is performed for each entry in the file. This process reads the employer (client) and employee master file information for each record and calculates, among other things, gross earnings, tax deductions, and net pay. Employer and employee year-to-date payroll and tax records are updated during the payroll process (4.4).

During processing, the Core Payroll application applies edit checks to ensure the completeness and accuracy of payroll processing. Errors are resolved by the Computer Operators and through problem management. Examples of edit checks include:

- Negative check amounts
- Bank account number not matching to the account number noted in the application
- No direct deposit set up
- Back-dated check dates
- Payfile code not set up
- Duplicate payroll processing (4.5)

The payroll process generates the client's payroll report output and also updates the client's payroll master files with the current pay period information. If the payroll process fails, an automated message is generated to Enterprise Support to resolve the failure and ensure the payroll will process correctly. Copies of the automated messages are also generated to the Service Specialist and the Supervisor assigned to the client for follow-up. Computer Operations does not participate in the correction process. Once all of the failures have been resolved, the payroll automatically processes. A second automated message is generated to the Service Specialist and the Supervisor, indicating the payroll process is complete.

The next step of the payroll process creates the payroll reports for each client. Standard payroll reports produced for each client include payroll journals and department summaries, and direct deposit summaries, along with employee payroll checks.

Output

Checks, deposit summaries, and other output reports, including journals, summaries, and tax deposit notifications, are printed at Paychex facilities and delivered to the client. Optionally, non-editable payroll reports are available online. Standard payroll reports include:

- **Payroll Journal** – This report displays employee payroll activity for the current period, including earnings, net pay, tax deductions, and other earnings/deductions for each employee. Client totals are provided.

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- **Department Summary** – This report displays payroll information for the current and month to date periods, summarized by organizational unit. The report also includes Quarter to Date and Year to Date totals by employee type and deduction type. The Department Summary usually contains the necessary information to post payroll transactions to the general ledger (6.1).

Checks are produced at the payroll processing locations. If a paper jam occurs during the check printing process, the Computer Operator intervenes and manually corrects the problem. The printer logic notes where the error occurred and resumes printing from that point. The printer will reprint the checks that were removed during the jam. The rejected checks are appropriately disposed of in locked document shredding bins by the Computer Operator. Unused check stock is kept in a secure area and access is limited to authorized personnel (1.3).

The design of Paychex payroll checks and stubs provides security protection against current color copy and scanner duplication systems. These features are included on both the front and back of each check (6.3). For clients who choose the Check Signing product, Paychex prints checks with a signature provided by the client. Paychex loads the signature image into a secure directory on the payroll processing server.

Reports are packaged, sealed, and delivered to clients by insured third-party couriers. A Delivery Report and manifest are used to monitor and control the distribution of payroll packages. Payroll packages (including checks or deposit reports) are distributed in accordance with client specifications (6.2). Payroll packages awaiting delivery are stored in secure areas (1.2).

As part of the payroll output process, data files are generated to update databases for ancillary products and services, such as Retirement Services. The payroll transaction records are updated to a separate history database. This allows previous payroll entries to be referenced and enables the client to receive a report of entries for each employee. Data files are backed up on a nightly basis and transported off-site. Print images of daily reports are compressed and stored on the local branch system and transmitted to a central online reports archive at the CDC. The archive provides an internal reference copy of the reports and allows the replication of reports at the client's request. Clients also have the option of requesting online copies so that they can download their reports from Paychex Flex as softcopies once the payroll is processed. These are the same reports as the printed payroll reports.

Payroll Processing via the Preview Application

Preview is a payroll service that allows clients direct access to their payroll data and enables them to enter their payroll data and confidentially transmit it to Paychex where the payroll is processed. A completed payroll file is transmitted back to the client, including a full client payroll master and history file. Preview clients electronically transmit payroll data to the applicable payroll processing center via the Preview File Transfer (PFT) utility (2.1 & 2.2).

System Overview

Clients input payroll data using the Preview application, which can be used as a traditional onsite, PC-based system or accessed via a secure web-hosted environment provided by Paychex. For Preview clients, payroll data changes authorized by the client are made by either the client or the Service Specialist.

Paychex provides Preview payroll software version updates to desktop clients semiannually. Monitoring is performed to ensure all clients convert to the new versions timely. Clients utilizing the secure web-hosted environment are automatically updated monthly to the latest software version.

After input and verification by the client, the payroll data is transmitted to Paychex via the PFT utility. The Paychex PFT utility utilizes the TLS protocol when sending or receiving files via an internet connection (2.5). In addition, the application enforces an additional layer of encryption on the downloaded files to

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ensure that only the client can utilize the completed payroll. The client creates a unique encryption key at their site, which is used to automatically decrypt the payroll files each time they are received.

After payroll files are received via PFT, an automated receiver process runs to load the files into the Preview processing system for payroll processing. Payroll processing includes calculating the payroll using client-specific criteria (i.e., pay rates) as well as standard criteria used for all clients (i.e., withholding tables). Validation edits are applied and client-specific output is then created (2.6). All data received by the processing system is backed up at the CDC.

Payroll Process Flow – Preview Application

New clients utilizing the Preview application at their place of business are assigned an Implementation Specialist, who prepares and loads the Preview software, containing client-specific parameters, on the client's computer. The application requires the use of a unique user name and password (3.5). The user name is included in the New Client Set-Up Screen. The New Client Set-Up Screen also includes payroll processing frequency information. For new clients that access the Preview application via a secure web-hosted environment, the Implementation Specialist and a Technical Support Specialist (TSS) initialize the client's hosted environment, upload the client's data, and ensure the hosted environment is ready to accept the client data. The Implementation Specialist is responsible for training the client on the use of the Preview software and oversees the first few payrolls. The transition is then made to a Service Specialist, who becomes the client's primary contact at Paychex. The Service Specialist collaborates with the TSS to ensure the hosted Preview client is fully supported while using the hosted environment.

The payroll process can be broken down into the following steps: input, payroll processing, and output.

Input Process

On a per pay period basis, clients input their payroll data into Preview, including time and attendance data. This allows clients to validate transactions because they have more control over the payroll data. Standard edit checks that allow the client to verify the accuracy of their payroll information before transmitting the data to Paychex for processing are provided with the Preview software; however, the client's use of these edit checks is optional (3.2). An additional option is to have payroll data imported from a time and attendance system. Clients then transmit the data to Paychex via PFT for processing. Transmission through the PFT utility sends encrypted and authenticated data between the client's computer and secure designated areas of the Preview server. The PFT utility automatically records the date and time the payroll files are sent and the status of the transmission (2.3). The application also automatically displays an error message if the payroll file transmission is unsuccessful (2.4). Throughout the day, local facility Computer Operators initiate the transfer to automatically transmit the files to the Preview processing system (2.1).

A small number of Preview clients utilize the assistance of Paychex personnel for the entry of payroll information into Preview. Instead of using the PC-based system or web-hosted environment, the client faxes or emails payroll information to a Paychex Service Specialist, who then enters payroll data into Preview on behalf of the client.

Payroll Processing

The payroll process refers to all processing done for a client on a per pay period basis as defined by client-specific parameters. This process can also encompass optional processes, including but not limited to, time-off accrual, general ledger, job costing, and labor distribution.

Computer Operators add clients' payroll files to the processing queue on demand using the "transfer to queue" process. The transfer to queue process merges all client company and employee specific changes sent from the client into the Paychex data files. Payrolls are then marked "to be processed" by the Computer Operator at the processing location. Payrolls can be processed concurrently, or the Computer Operator can

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prioritize them as needed. Payroll coding is done within the client company table through the client company entry screens. Client company and employee specific coding is used in conjunction with tax tables and withholding tables to process standard calculations for all clients such as payroll calculations, tax calculations, standard payroll package output, and other similar calculations.

During processing, Preview applies edit checks to ensure the completeness and accuracy of payroll processing. Examples of edit checks include:

- Negative check amounts
- Bank account number does not match the account number noted in the application
- No direct deposit set up
- Back dated check dates
- Payfile code not set up
- Duplicate payroll processing (4.5)

For payrolls with errors during processing, the error will appear on the Computer Operator's console with an appropriate message and the client data will be restored to its original status before the file transmitted from the client had been updated. Errors are investigated by any one of the following: the Supervisor, the Service Specialist, the client, or Enterprise Support and appropriate corrective action is taken. The Computer Operator does not participate in error correction procedures. Once all errors have been corrected, the Computer Operator releases the payroll for further processing. If errors still exist, the process is repeated until all errors have been corrected and the payroll is accurate (4.6).

Monitoring is performed by the Service Specialist to identify payrolls expected but not received from the client, as based on their processing schedule. The Service Specialist runs reports to identify clients that have not yet submitted payroll. The Service Specialist contacts clients whose payroll is expected but not yet received to ensure that payrolls are processed appropriately (4.3).

Output

Checks, direct deposit summaries, and other output reports can be printed at Paychex facilities and delivered to the client or transmitted back to the client for printing at the client's office. For the purposes of this report, checks are presumed to be printed at Paychex. (See "Complementary User Entity Controls" for checks printed by the client.)

Preview produces the following standard reports:

- **Payroll Register** – This report provides payroll detail for the current check date. The report is grouped by department, and lists each employee alphabetically. Both department and company totals are provided.
- **Payroll Tax Report** – This report provides tax-related details for the current check date.
- **Payroll Taxable Wages Report** - This report provides taxable wage details for the current check date (6.1).

Clients also have the option of selecting additional reports to meet their needs, including preformatted reports, as well as customized reports using the Report Writer functionality of Preview. Client or Paychex personnel can design customized reports, or generate reports in either paper or electronic format. All reports can be printed as often as necessary (weekly, monthly, quarterly, annually) depending on the client's requirements.

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Checks are produced at regional payroll processing locations. If a paper jam occurs during the check printing process, the Computer Operator intervenes and manually corrects the problem. The printer logic notes where the error occurred and resumes printing from that point. The printer will reprint the checks that were removed during the jam. The rejected checks are appropriately disposed of in locked shredding bins by the Computer Operator. Unused check stock is kept in a secure area and access is limited to authorized personnel (1.3).

The design of Paychex payroll checks and stubs provides security protection against current color copy and scanner duplication systems. These features are included on both the front and back of each check (6.3).

Reports are packaged, sealed, and delivered to clients by insured third-party couriers. A Delivery Report and a manifest are used to monitor and control the distribution of payroll packages. Payroll packages (including checks or deposit reports) are distributed in accordance with client specifications (6.2). Payroll packages awaiting delivery are stored in secure areas (1.2).

After the current payroll has been processed through Preview, a new file is prepared for the client to download during their next electronic communication session. This file includes the latest payroll history and year-to-date amounts. Once the client has downloaded this information to their computer, the client's records are then synchronized with Paychex records.

Tax Withholding Calculations (Core Payroll and Preview®)

Payroll Publications (CCH, BNA, and RIA), Westlaw (a legislative search engine), and industry news and articles are monitored to ensure compliance with agency legislative and regulatory requirements. Compliance is responsible for monitoring these communications, articles, and websites daily. In addition, Compliance has direct contact with each of the federal/state agencies to identify any upcoming withholding table changes. All contact information and agency responses are documented on a "Withholding Table Tracking Chart." This chart is organized by state/federal agency and includes columns indicating whether there is a withholding table change, if an application request (APR) was submitted to IT, and when the new table/withholding information will be available from the agency. It also includes the specific APR number for tracking purposes (if applicable). The phone call process with the federal/state agencies to identify withholding rate changes usually begins in September and continues until a response is received from each of the agencies.

The majority of tax withholding calculation changes to the payroll application are manually entered by the PD&IT Agile teams in the staging environment and then sent to IT to be packaged and deployed to the production environment. There are few changes that require modification to the program code and these are typically on an exception basis, such as a change to expand or add a field in the payroll application. If a system change is identified as needed, an application request is created using the ticketing system and submitted to IT Operations. The request includes individual approvals, details of the change, and the effective date (5.1 & 5.2).

PD&IT Agile teams manually enter the withholding change in the staging environment for the payroll application. Access to the statutory rate tables is limited to appropriate personnel through assigned user IDs and passwords. If any changes are needed, the document is rejected back to the original Agile team member that performed the coding. All withholding rate changes are tracked through ServiceNow and require approval from PD&IT Management before the change is executed in production. In addition, there is a second independent manual verification within the PD&IT Agile team to ensure that the change has been coded correctly to the staging environment before it is scheduled for release to production. If all changes are coded correctly, Implementation approves the change for release into the production environment; the release into production follows the formal system development and maintenance process described earlier. The modified files are sent to the branches via an Application Release, and overwrite any files in the current payroll system (5.3).

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Check Printing, Check Stock, and Distribution Areas

Access to the payroll processing centers, including sensitive areas such as the check printing area, payroll package storage, and check stock rooms, is controlled by physical access systems (i.e., multi-level card access, PIN number). The processing centers are monitored by surveillance cameras and security guards.

Access to the sensitive areas is restricted to Paychex personnel and authorized vendors, and access is granted based upon job responsibilities (1.1 & 1.2). Payroll packages awaiting delivery by vendors are stored in courier rooms off the check printing area. The check stock room is separated from other areas in the payroll processing centers, and access is granted based upon job responsibilities (1.3).

CONTROL OBJECTIVES AND RELATED CONTROLS

Paychex, Inc.'s control objectives and related controls are included in Section IV of this report, Paychex, Inc.'s Control Objectives and Related Controls, and PwC LLP's Tests of Controls and Results of Tests. Although the control objectives and related controls are presented in Section Four, they are nevertheless an integral part of Paychex, Inc.'s description of its system.

COMMUNICATION***Information Flow from Senior Management to Operations Management***

Communication between senior and operations management includes updates when written communication is appropriate, periodic department meetings between each executive and their direct reporting managers, and other discussions as needed. Communication is encouraged at all levels of Paychex.

Operating Procedures Manuals

Manuals help maintain consistent operating procedures and provide a reference to employees in the conduct of their daily responsibilities. Procedures and documentation are maintained and updated online.

Communication with Clients

As part of the Company's commitment to providing quality customer service, Paychex has regular communication between clients and product specialists. Paychex uses and provides an array of communication methods, including technical help desks, regular written and email updates on payroll regulation and tax changes, client surveys, and access to www.paychex.com.

TESTING OF KEY REPORTS

Inquiry, observation and/or inspection procedures were performed as it relates to system generated reports, queries, and listings within management's description to assess the accuracy and completeness (reliability) of the information utilized in the performance of our testing of the control activities.

The related accounting records, whether electronic or manual, and supporting information involved in initiating, authorizing, recording, processing, and reporting transactions, including the correction of incorrect information and how information is transferred to the reports and other information prepared for user entities used within the operation of controls was assessed for the following listing of key reports prepared by Management.

Report	Control Activity(ies)	System	Description
Payroll Journal	6.1	Core Payroll	This report displays employee payroll activity for the current period, including earnings, net pay, tax deductions, and other earnings/deductions for each employee. Client totals are provided.
Department Summary	6.1	Core Payroll	This report displays payroll information for the current and month to date periods, summarized by organizational unit. The report also includes Quarter to Date and Year to Date totals by employee type and deduction type. The Department Summary usually contains the necessary information to post payroll transactions to the general ledger.
Payroll Register	6.1	Preview	This report provides payroll detail for the current check date. The report is grouped by department, and lists each employee alphabetically. Both department and company totals are provided.
Payroll Tax Report	6.1	Preview	This report provides tax-related details for the current check date.
Payroll Taxable Wages	6.1	Preview	This report provides taxable wage details for the current check date.

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COMPLEMENTARY USER ENTITY CONTROLS

The Payroll Processing system was designed with the assumption that certain controls would be implemented by its user entities. In certain situations, the application of specific controls at the user entities is necessary to achieve certain control objectives identified in this report. Therefore, each user entity's internal control structure must be evaluated in conjunction with the internal controls described in this report.

The Company's complementary user entity controls are included in Section Four of this report, "Paychex, Inc.'s Control Objectives and Related Controls, and PwC LLP's Tests of Controls and Results of Tests," to eliminate the redundancy that would result from listing them here in Section Three and repeating them in Section Four. The list of complementary user entity controls presented with certain specified control objectives does not represent a comprehensive list of all the control that should be implemented by user entities. Each user entity must evaluate its own system of internal control to determine if the complementary user entity controls are in place.

COMPLEMENTARY SUBSERVICE ORGANIZATION CONTROLS

The Payroll Processing system was designed with the assumption that certain internal controls must be placed in operation by the subservice organization. The application of such internal controls by the subservice organization is necessary to achieve certain control objectives identified in this report.

This section describes the subservice organization and certain controls that should exist at the subservice organization in order to achieve the control objectives identified in this report.

For the control objectives listed below, Paychex uses Paychex PD&IT to support the achievement of control objectives identified in this report. The subservice organization controls presented below should not be regarded as a comprehensive list of all of the controls that should be employed by the subservice organization.

Subservice Organization	Services Provided	Applicable Control Objective(s)	Complementary Subservice Organization Controls
Paychex PD&IT	General Information Technology Controls	CO1, CO2, CO3, CO4, CO5, CO6	Paychex PD&IT should have general information technology controls in place for change management, network security, operational monitoring and problem management, logical access, physical access, environmental systems, data backup, and scheduling to support the complete, accurate and timely processing and reporting of transactions.

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SECTION IV

PAYCHEX, INC.'S CONTROL OBJECTIVES AND RELATED CONTROLS, AND PWC LLP'S TESTS OF CONTROLS AND RESULTS OF TESTS

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PAYCHEX, INC.'S CONTROL OBJECTIVES AND RELATED CONTROLS, AND PWC LLP'S TESTS OF CONTROLS AND RESULTS OF TESTS

Completeness and Accuracy of Information Produced by the Entity: When using information produced by Paychex, Inc., PwC evaluated whether the information was sufficiently reliable for our purposes, including, as necessary, obtaining evidence about the completeness and accuracy of the information and evaluating whether the information was sufficiently precise and detailed for our purposes.

GENERAL INFORMATION TECHNOLOGY CONTROLS

Physical Access

Control Objective #1: Controls provide reasonable assurance that physical access to the check printing and distribution areas is restricted to authorized personnel.

Paychex, Inc.'s CDCs are located near Rochester, NY. Physical access controls are managed by the PD&IT function and are covered in Paychex, Inc.'s Information Technology Services system SOC 1 report. The controls below cover physical access as it relates to check printing and distribution areas.

	Description of Controls	PwC LLP's Tests of Controls	Test Results
1.1	<i>Access to Physical Checks and Payroll Input</i> Physical access to print, pack, and deliver payroll checks, files and reports and logical access to input payroll information are appropriately restricted.	For a sample of employees with physical access to print, pack, and deliver payroll checks, files, and reports, inspected supporting documentation to determine whether each employee that also had logical access to input payroll information required such access based upon job function. Observed the areas where users print, pack, and deliver payroll checks, files and reports to determine whether access to these areas was restricted by card access.	No exceptions noted.
1.2	<i>Access to Payroll Packages</i> Access to the secured areas where payroll packages awaiting delivery are stored is limited through badge card readers to appropriate personnel.	For a sample of employees with access to the secured areas where payroll packages are stored, inspected supporting documents to determine whether access was appropriate based upon job responsibilities. Observed the areas where payroll packages are stored to determine whether access to these areas was restricted by card access.	No exceptions noted.
1.3	<i>Physical Access to Check Printing and Unused Checks</i> Access to the secured area where check printing equipment and unused check stock are stored is limited through badge card readers to appropriate personnel.	For a sample of employees with access to check printing equipment and unused check stock, inspected supporting documents to determine whether access was appropriate based upon job responsibilities. Observed the check stock room to determine whether access was restricted by card access.	No exceptions noted.

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PAYROLL PROCESSING CONTROLS

Preview Client Transmissions

Control Objective #2: Controls provide reasonable assurance that payroll input data and data transmissions between clients and Paychex are authorized, complete, accurate and secure.

	<i>Description of Controls</i>	<i>PwC LLP's Tests of Controls</i>	<i>Test Results</i>
2.1	<p><i>Encrypted Transmissions</i> Preview The application automatically encrypts payroll files prior to transmission between the client and Paychex using the PFT utility.</p>	Observed the Preview system to determine whether the system automatically encrypted payroll files prior to transmission between the client and Paychex.	No exceptions noted.
2.2	<p><i>Transmission Authentication</i> Preview PFT transmission authentication is integrated with Preview's existing user authentication mechanism.</p>	Observed the PFT utility to determine whether PFT authentication is integrated with Preview's existing user authentication mechanism.	No exceptions noted.
2.3	<p><i>Transmission Logs</i> Preview The PFT's Internet File Transmission Log automatically records the date and time the payroll files are sent between the client and Paychex and the status of the transmission.</p>	Observed a transmission log within the application to determine whether the PFT's Internet File Transmission Log automatically recorded the date and time the payroll files were sent between the client and Paychex and the status of the transmission.	No exceptions noted.
2.4	<p><i>Transmission Error</i> Preview The application automatically displays an error message if the payroll file transmission from the client to Paychex was unsuccessful.</p>	Observed an error message displayed for an unsuccessful attempt to transmit a client payroll file to Paychex determine whether the application automatically displayed an error message.	No exceptions noted.

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	<i>Description of Controls</i>	<i>PwC LLP's Tests of Controls</i>	<i>Test Results</i>
2.5	<p><i>SSL Encryption</i> Preview The PFT utility, as well as the Paychex Flex Payroll and Preview applications, require digital server certificates and Transport Layer Security (TLS) encryption when sending/receiving files.</p>	<p>Observed digital server certificates and TLS encryption to determine whether TLS encryption was required when sending/receiving files for Paychex Flex Payroll and Preview applications, as well as the PFT utility.</p>	No exceptions noted.
2.6	<p><i>Transmission Edit Checks</i> Preview The following application edit checks are applied against received files to validate the accuracy of the transmission:</p> <ul style="list-style-type: none"> -Encryption keys do not match -Transmission file not encrypted -Salary data does not match between payroll and employee entry -Account # in pay file does not match company entry -File copy\merge error -Company has corrupt pay file -Company on A/R Credit warning -Company on Credit Hold -No pay file in zip -No employee file in zip 	<p>Observed a Service Specialist receive an error message for each of the following edit checks:</p> <ul style="list-style-type: none"> -Encryption keys do not match -Transmission file not encrypted -Salary data does not match between payroll and employee entry -Account # in pay file does not match company entry -File copy\merge error -Company has corrupt pay file -Company on A/R Credit warning -Company on Credit Hold -No pay file in zip -No employee file in zip <p>To determine whether the application was configured to enforce edit checks to validate the accuracy of the transmission, and that the Payroll Specialist must communicate the error to the client payroll representative to resolve the error.</p> <p>Observed a Payroll Specialist clicking off on the error message to determine whether the system did not resolve the error.</p>	No exceptions noted.

Complementary User Entity Controls

Controls should be established at user entities, including:

- Controls for designating payroll contacts and for communicating to Paychex changes in designated payroll contacts authorized to make changes on behalf of the client.
- Controls to ensure the accuracy of any information provided by designated payroll contacts and/or the client.
- For clients with onsite, PC-based Preview, clients should have controls for the timely installation of the most recent version of the Preview software.

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- Controls to restrict access to terminals and computer workstations connected to Paychex computer systems, including access to PFT.
- Controls over the storage of the file encryption key to prevent unauthorized access.
- Controls to restrict the ability to initiate a payroll file transmission to only authorized staff.
- Controls for any pay file submitted by email, as these files are not submitted over secure or dedicated lines.
- Controls to monitor for success of submission of pay files, and to resend as necessary.
- Controls over access to the client number, which is used as a means of identification.

Client Input

Control Objective #3: Controls provide reasonable assurance that payroll data is initially recorded completely and accurately.

	<i>Description of Controls</i>	<i>PwC LLP's Tests of Controls</i>	<i>Test Results</i>
3.1	<p><i>Client Payroll Contact</i> All Core Payroll clients are required to have at least one defined payroll contact in the Core Payroll system prior to activation.</p>	<p>Observed a Service Specialist add a new client to the Core Payroll application and enter a defined payroll contact to determine whether a contact must be entered prior to the client being activated.</p> <p>Observed a Service Specialist add a new client to the Core Payroll application without a defined payroll contact to determine whether an error message is presented and a contact must be entered prior to the client being activated.</p>	No exceptions noted.
3.2	<p><i>Payroll Input</i> During payroll data input for the Core Payroll and Preview applications, edit checks verify that required fields are present and input data is accurate. Should any input fail these edit checks, the data is rejected and an error message is displayed for the Payroll Specialist (PRS), Client Service Representative (CSR), or client entering the data to resolve.</p> <p>The following Core Payroll application edit checks ensure the accuracy of direct deposit information upon input:</p> <ul style="list-style-type: none"> -Required reason for backdated payroll -Comment for backdated payroll <p>The following Preview application edit checks ensure the accuracy of direct deposit information upon input:</p> <ul style="list-style-type: none"> -Check date is not on the company calendar <p>During a payroll session, each active employee is presented in a predetermined order.</p>	<p>Observed input screens and error messages from the Core Payroll application to determine whether edit checks were in place and error messages were displayed to require a reason and a comment for a backdated payrolls for the Payroll Specialist (PRS), Client Service Representative (CSR), or client entering the data to resolve.</p> <p>Observed input screens and error messages from the Preview application to determine whether edit checks were in place and error messages were displayed to restrict a check date being entered for a direct deposit that was not on the company calendar.</p> <p>Observed a payroll data input for the Core Payroll and Preview Applications with no errors to determine whether the system successfully processed without errors.</p> <p>Observed a payroll session to determine whether active employees were presented in a predetermined order.</p>	No exceptions noted.

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	<i>Description of Controls</i>	<i>PwC LLP's Tests of Controls</i>	<i>Test Results</i>
3.3	<p><i>Control Totals Calculation</i> The Core Payroll application automatically calculates control totals. The Payroll Specialist compares the control totals produced by the application to the information provided by the client to ensure the completeness and accuracy of payroll input.</p>	<p>Observed a Payroll Specialist input payroll data in the Core Payroll application and manually compare the control totals calculated by the application to the information provided by the client to determine whether the completeness and accuracy of the input based on the information provided by the client.</p> <p>For a client payroll, recalculated the control totals to determine whether control totals were accurately calculated by the Core Payroll application based on the information provided by the client.</p>	No exceptions noted.
3.4	<p><i>Direct Deposit Edit Checks</i> The following Core Payroll application edit checks ensure the accuracy of direct deposit information upon input:</p> <ul style="list-style-type: none"> -Confirmation of bank account number changes -Active bank relationship -Active bank account -Direct deposit allocation amounts between multiple bank accounts 	<p>Observed a Payroll Specialist receive error messages for each of the following Core Payroll application key edit checks to determine whether edit checks were implemented for accuracy of direct deposit information upon input and noted that errors must be resolved in order for the PRS to move forward in the payroll process:</p> <ul style="list-style-type: none"> -Confirmation of bank account number changes -Active bank relationship -Active bank account -Direct deposit allocation amounts between multiple bank accounts <p>Observed a direct deposit input for the Core Payroll with no errors to determine whether the system successfully processed without errors.</p>	No exceptions noted.
3.5	<p><i>Application User Authentication</i> The Paychex Flex Payroll and Preview applications require the use of a unique user name, password, and a multi-factor authentication option for authentication.</p>	<p>Inspected the Paychex Password Policy documentation to determine if password parameters inherent to the Paychex Flex Payroll and Preview applications were in accordance with company policy.</p> <p>Observed a Payroll Specialist log in to the Paychex Flex Payroll and Preview applications to determine whether a unique user name, password, and a multi-factor authentication option were required for authentication.</p>	No exceptions noted.

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	<i>Description of Controls</i>	<i>PwC LLP's Tests of Controls</i>	<i>Test Results</i>
3.6	<i>Transaction Logs</i> Key payroll transactions are logged, including the date and time of the transaction and the name of the individual who initiated the transaction accurately.	Observed a staff person process a transaction on each payroll processing system to determine whether the payroll transaction, date and time of the transaction, and the name of the individual who initiated the transaction were logged accurately.	No exceptions noted.

Complementary User Entity Controls

Controls should be established at user entities, including:

- Controls for designating payroll contacts who are available for payroll input and for communicating to Paychex changes in designated payroll contacts authorized to make changes on behalf of the client.
- Controls to ensure the completeness and accuracy of any information provided by designated payroll contacts and/or client.
- Controls over access to the client number, which is used as a means of identification.

Preview Clients

- Manual clients whose payroll is input by Paychex should have controls in place to ensure the completeness and accuracy of the payroll input and should communicate any discrepancies timely to Paychex.
- Clients should have controls in place to restrict access to terminals and computer workstations connected to Paychex computer systems, including access to PFT.

Core Payroll Clients

- Clients should have controls in place for the calculation of payroll totals on the client timesheet prior to input at the branch. Clients should have controls in place for comparing these totals to the accumulated totals calculated and displayed on the branch payroll system.
- Clients should have controls for ensuring control totals are complete and accurate.

Paychex Flex Payroll Clients

- Clients should have controls in place to identify an administrator commensurate with job responsibilities to control security access rights for individuals within their company that can review and input payroll information.
- Clients should have controls in place to restrict the ability to initiate a payroll file transmission to only authorized staff.

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Payroll Data Processing

Control Objective #4: Controls provide reasonable assurance that payroll data is processed completely and accurately in accordance with client specifications.

	<i>Description of Controls</i>	<i>PwC LLP's Tests of Controls</i>	<i>Test Results</i>
4.1	<i>Client Setup</i> Implementation Specialists review new client information input into the application for completeness and accuracy within five business days after generating the first payroll and subsequent supporting documentation.	For a sample of new clients, inspected the supporting documents used to set up the client specifications to determine whether an Implementation Specialist reviewed client information for completeness and accuracy within five business days after generating the first payroll.	No exceptions noted.
4.2	<i>Transaction Logs</i> Key payroll transactions are logged, including the date and time of the transaction and the name of the individual who initiated the transaction accurately.	Observed a staff person process a transaction on each payroll processing system to determine whether the payroll transaction, date and time of the transaction, and the name of the individual who initiated the transaction were logged accurately.	No exceptions noted.
4.3	<i>Core Payroll Electronic Appointment Schedule</i> The application automatically removes clients from the PRS's Electronic Appointment Schedule once their payroll has been input and submitted for processing.	Inspected a sampled client within the application to determine whether Paychex clients appeared on the Service Specialist's Electronic Appointment Schedule prior to input and whether the client was removed from the Service Specialists Electronic Appointment Schedule after the client's payroll had been input and submitted for processing.	No exceptions noted.
4.4	<i>Employees Gross Pay and Net Pay Calculations</i> The applications are configured to accurately calculate employee gross pay and net pay based upon client-specified pay rates, deductions, and hours.	Reperformed the gross pay and net pay calculation for one client employee on the Core payroll and the Preview payroll processing applications to determine whether both applications accurately calculated employee gross pay and net pay based upon client specified pay rates, deductions, and hours.	No exceptions noted.

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	<i>Description of Controls</i>	<i>PwC LLP's Tests of Controls</i>	<i>Test Results</i>
4.5	<p><i>Payroll Processing Checks</i> The following application payroll processing edit checks ensure the completeness and accuracy of payroll processing:</p> <ul style="list-style-type: none"> - Bank account number not matching to the account number noted in the application -No direct deposit set up -Pay file code not set up -Duplicate payroll processing -Negative check amounts -Check date is not on the company calendar (confirmation that the check processing date is correct) <p>Errors are resolved by the Computer Operators and through problem management.</p>	<p>Observed a Service Specialist attempt to process a payroll through the applications to determine whether checks related to payroll processing were implemented.</p> <p>Observed a Service Specialist receive an error message for each of the following edit checks:</p> <ul style="list-style-type: none"> - Bank account number not matching to the account number noted in the application -No direct deposit set up -Pay file code not set up -Duplicate payroll processing -Negative check amounts -Check date is not on the company calendar (confirmation that the check processing date is correct) <p>To determine whether checks related to payroll processing were implemented, and that the Service Specialist must communicate the error to the client payroll representative to resolve the error.</p> <p>Observed a PSR/CSR clicking off on the error message to determine whether the system did not resolve the error.</p> <p>Observed a payroll process with no errors to determine whether the system successfully processed the payroll.</p>	No exceptions noted.
4.6	<p><i>Payroll Monitoring and Problem Management</i> Computer Operators monitor the servers and process incoming payrolls. The Computer Operators identify payroll processing failures and submit them to Enterprise Support, the Service Specialist, and/or the Supervisor for corrective action.</p>	<p>For a sample of payroll processing failures, inspected system errors and supporting documentation to determine whether payroll processing failures and the related error messages were communicated to Enterprise Support, the PRS/CSR, and/or the Supervisor for corrective action.</p> <p>For a sample of failures, inspected supporting documents to determine whether Computer Operators identified the failures and the failures had evidence of corrective action from Enterprise Support, the Service Specialist, and/or the Supervisor.</p>	No exceptions noted.

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Complementary User Entity Controls

Controls should be established at user entities, including:

- Controls to ensure the accuracy of any information provided by designated payroll contacts and/or client.
- New clients should have controls in place to perform a detailed review of the first payroll to verify the accuracy and completeness of the payroll run.
- Controls to perform a detailed review of all payrolls to verify the accuracy and completeness of the payroll run.
- Controls over the timely notification of payroll changes to Paychex.
- Controls over access to the client number, which is used as a means of identification.
- Controls for the timely reconciliation of client bank statement activity.
- Controls to verify the accuracy of changes to garnishment deductions.
- Controls to review all reports and documents provided or made available by Paychex and inform Paychex of any inaccuracies in accordance with the provisions of the applicable governing agreements or documents between Paychex and the client.

Payroll Tax Withholdings

Control Objective #5: Controls provide reasonable assurance that applicable tax rates are used to process payroll deductions for federal, state and local tax withholding calculations and deductions are made in accordance with client specifications.

The controls below document the approval process for updating tax rates, system configuration, and access to tax rate tables. Once tax rate changes have been approved, the changes are deployed to the production environment. The deployment of changes to production environment is covered in the Information Technology Services system SOC 1 report.

	<i>Description of Controls</i>	<i>PwC LLP's Tests of Controls</i>	<i>Test Results</i>
5.1	<i>Statutory Change Initiation and Approval</i> Statutory change requests require PD&IT Management approval before the change is established.	For a sample of tax rate changes, inspected the change request forms to determine whether PD&IT approval was obtained before the change was established.	No exceptions noted.
5.2	<i>Statutory Change Approval</i> Statutory change requests require two verification reviews after the change has been input.	For a sample of tax rate changes, inspected the request forms to determine whether two verification reviews were completed subsequent to input of the change.	No exceptions noted.
5.3	<i>Tax Withholding Rate</i> The applications are configured to accurately apply tax withholding rate information.	Reperformed the tax withholding rate information calculation for one client employee on each application to determine whether the application accurately applied tax withholding rate information.	No exceptions noted.

Complementary User Entity Controls

Controls should be established at user entities, including:

- Clients should perform a detailed review of payrolls to verify the accuracy and completeness of withholdings.
- Controls for initiating and approving changes to the employee tax deduction information and verifying the accuracy of the changes made in subsequent payroll cycles.
- Controls over the retention of payroll output to satisfy federal, state, and local authorities.
- Controls over the retention of tax deduction change documentation.

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Checks and Output Reports

Control Objective #6: Controls provide reasonable assurance that client payroll checks and output reports (including direct deposits) are produced completely and accurately, and are distributed in accordance with client specifications.

	<i>Description of Controls</i>	<i>PwC LLP's Tests of Controls</i>	<i>Test Results</i>
6.1	<p><i>Payroll Checks and Standard Reports</i> The Core Payroll and Preview applications are configured to produce the following standard output reports using the client payroll input.</p> <p>Core Payroll: - Department Summary - Payroll Journal</p> <p>Preview: - Payroll Register - Payroll Tax Report - Payroll Taxable Wages</p>	<p>Observed the configuration and generation of the checks and standard output reports produced to determine whether the Core Payroll application was configured to produce the standard output reports completely and accurately.</p> <p>For the following key reports, inspected the system details and compared to the report to determine whether the Core Payroll and Preview applications generated the reports completely and accurately.</p> <p>Core Payroll: - Department Summary - Payroll Journal</p> <p>Preview: - Payroll Register - Payroll Tax Report - Payroll Taxable Wages</p>	No exceptions noted.
6.2	<p><i>Distribution of Payroll Packages</i> Paychex personnel use courier logs or pickup/delivery logs and manifests to monitor and control the distribution of payroll packages. Payroll packages are distributed in accordance with client specifications.</p>	For a sample of days and payrolls, inspected the courier or pickup/delivery logs and manifests to determine whether they were used to monitor and manage the distribution of payroll packages and whether packages were distributed in accordance with client specifications.	No exceptions noted.
6.3	<p><i>Check Stock</i> The Company uses check stock that incorporates security features.</p>	Inspected the design of the check stock used by Paychex to determine whether security features were incorporated.	No exceptions noted.

Complementary User Entity Controls

Controls should be established at user entities, including:

- Controls over access to payroll output, including electronic payroll data.
- Controls over access to the client number, which is used as a means of identification.
- Controls for the timely reconciliation of client bank statement activity.
- Controls to verify direct deposit changes are made accurately and completely.

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Preview

- Clients that choose to print payroll checks at their location should have controls over access to check stock as well as printed checks.
- Clients that create customized reports, or choose to generate reports in paper or electronic format, should have controls over reviewing these reports for completeness and accuracy.

SECTION V

OTHER INFORMATION PROVIDED BY PAYCHEX, INC. THAT IS NOT COVERED BY THE SERVICE AUDITORS' REPORT

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OTHER INFORMATION***Business Continuity and Recovery***

Business Continuity Plans (BCPs) have been developed and are maintained for all mission-critical and business-critical functions within Paychex. The BCPs document plans for the continuation of business activity during an interruption in service. All recovery plans for non-automated business processes are maintained in separate manuals by each business unit. Business unit plans help ensure that the business is prepared with the necessary communications and procedures in place to minimize impact. Within the plan, each point of failure is identified and steps are documented to restore functionality, duplicate functionality, or provide suitable (even if reduced) alternate functionality. Technical components of the recovery plan, such as platform cutover steps, are stored electronically on a shared drive.

In addition, Paychex maintains a Paychex Recovery Command Team Guide. This guide is activated when the projected recovery time frame exceeds the maximum acceptable downtime or the recovery time frame for the production site or systems is not known for multiple critical functions at any Paychex facility. The objective of the Paychex Recovery Command Team Guide is to ensure that:

- An incident command team structure is in place to manage any size recovery effort.
- Essential personnel are identified and documented.
- Critical information, both electronic and hard copy, is copied and maintained off-site.
- Critical equipment is monitored and recoverable.
- Employees have a place to perform critical functions.
- Voice communication is available and data connectivity is provided to LAN/WAN and mid-frame operations.
- A detailed plan, tested regularly, is in place for performing functions in recovery mode.
- Decision-makers and public relations personnel are available and ready to respond, as necessary.

BCPs are maintained by the Information Management department through regularly scheduled reviews with designated subject matter experts. Plans are tested regularly. All issues resulting from the test are documented and followed up to closure by the Business Continuity team in conjunction with the appropriate business unit.

Privacy Statement

Paychex is committed to providing cost-effective payroll, payroll tax preparation, human resources, and employee benefits for any size business. In an effort to meet that commitment, clients may have to provide Paychex with business, financial, and/or personal information about the client and their employees. Their privacy and the privacy of the information provided are extremely important to Paychex. Paychex protects the security of the client's business, financial, and personal information. Paychex uses reasonable care to protect data from loss, misuse, unauthorized access, disclosure, alteration, and untimely destruction. Paychex grants access to personal client information only to its employees, agents, and service providers so they can provide products or services, process and service client accounts, administer their business, offer additional services, perform analysis to determine qualification to receive future services, or collect amounts due.

Additionally, Paychex does not sell or disseminate client information to any third parties under any circumstances, except to fulfill legal and regulatory requirements and to facilitate client-requested transactions.

Information is shared to facilitate the Services needed in order to properly and efficiently handle duties related to client accounts.

Paychex may share information with:

- Government agencies to fulfill legal, reporting, and regulatory requirements.
- Attorneys, accountants, and auditors.
- Credit reporting agencies to supply vendor references on client's behalf.
- Paychex employees, affiliated companies, subsidiaries, agents, and third-party service vendors to perform services related to client accounts, offer additional services, perform analysis to determine qualification to receive future services, or collect amounts due.
- Banking and brokerage firms to complete payroll processing and securities transactions.
- Credit bureaus and similar organizations, law enforcement, or government officials. Paychex reserves the right to release information if required to do so by law or if, in their business judgment, such disclosure is reasonably necessary to comply with legal process in a fraud investigation, an audit, or examination.

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