

## Exhibit E: Tax & Benefits Payment Verification Procedures

---

Accredited PEOs are required to engage an independent Certified Public Accountant to confirm quarterly the PEO's timely and accurate payment of worksite employee wages, state and federal employment taxes, employee retirement plan contributions, and workers' compensation and major medical premiums for all plans of insurance sponsored or co-sponsored by the PEO. ESAC will accept a copy of the CPA attestation required for IRS certification as verification of federal employment tax payments. Otherwise, all payment verifications can be provided via one or a combination of the following two options:

- **Examination Level Attestation:** The CPA may provide an examination level attestation of management's representations in accordance with standards established by the AICPA; or
- **Agreed Upon Procedures:** The CPA may perform the following agreed upon procedures and report findings in a procedures letter format as prescribed by the AICPA. As an alternative to all or any part of these procedures, the CPA may obtain confirmation letter(s) from payment recipients.
  - I. Where the nature of the PEO's records make conformance to the following procedures impractical or unreliable, ESAC authorizes the independent CPA to exercise professional judgment in modifying and performing the procedures as dictated by available records and in the manner most consistent with the objective to be accomplished, noting any differences between the procedures described below and the procedures used.
  - II. For the selected period (month or quarter) for each PEO group, all payments should be traced if there are no more than 5 payments in the period. If there are more than 5 payments in the period, trace 25% of the payments, selected at random but no less than 5 payments or more than 20 payments for each type of liability or payment for each company.
  - III. ESAC authorizes the independent CPA to exercise professional judgment in determining the materiality limits used in each Agreed Upon Procedure. The materiality limits used for each procedure shall be provided in the CPA's findings. For any material differences noted while performing an Agreed Upon Procedure, provide a date, amount, and description of the difference.

### 1. Agreed Upon Procedures for Quarterly Verification of Employment Tax Payments:

- a) Inquire of management as to whether all state and federal employment taxes and withholding taxes have been properly and timely reported and paid for the previous calendar quarter. Note any instances of known noncompliance.
- b) Inquire of management regarding any communications from the IRS or state agencies affecting employment taxes tested in this quarter or prior quarters. If any communications were received, review the IRS or state agency correspondence and, if material, attach a copy of such correspondence to your quarterly report.
- c) For federal employment taxes, the CPA may either provide an examination level attestation of management's representations in accordance with standards established by the AICPA and the SBEA of 2014, or perform the following procedures:
  - i. Obtain a copy of the most recent Form(s) 941 for each accredited PEO entity.
  - ii. For the quarter, trace the gross wages, federal withholding, social security and Medicare tax liabilities from Form 941 (or multiple 941s, in the case of a control group) to the payroll journal or similar source record and note any material differences.
  - iii. Randomly select a month in the quarter and select payments (as specified in Instruction II, above) from the deposits reported on the 941 Schedule B to the cash disbursements journal, or its equivalent, and note any material differences.
  - iv. For step iii. above, trace all such payments to the bank statement and note any payments that did not clear the bank.
  - v. Review results of the above step iv. conducted for the previous fiscal quarter and note any payments that have not yet cleared the bank.

d) For state unemployment taxes, the following procedures will be used:

- i. Obtain a schedule from the payroll journal or similar source record of the quarter's gross wages, state income tax liability, and state unemployment tax liability by state. Confirm total gross wages agree with the Form 941 (or multiple 941s, in the case of a control group) and note any unreconcilable differences.
- ii. From the schedule obtained above, select the state in which the PEO or PEO Group has the largest state tax liability. Also, select any other states where a state PEO licensing law or regulation requires such quarterly tax payment verification (currently Arkansas, Montana, New Hampshire, New Jersey, New York, Oklahoma, South Carolina and Tennessee). For all additional states in which there is a quarterly state tax liability of at least \$10,000, randomly select four states from this group for review.
- iii. For the selected states, obtain a state tax report detailing liabilities by processed payroll. Randomly select a month in the quarter and select liabilities (or a random sample thereof, as specified in Instruction II, above) and trace to the payroll journal or similar source record and note any material differences.
- iv. For the selected liabilities above, trace payment of each liability to the cash disbursements journal, or its equivalent, and note any material differences.
- v. Trace all such payments to the bank statement and note any payments that did not clear the bank.
- vi. Review results of the above step conducted for the previous fiscal quarter and note any payments that have not yet cleared the bank.

e) For state income taxes, repeat the procedures used for state unemployment taxes outlined in d), above.

**2. Agreed Upon Procedures for Quarterly Verification of Payments to Employee Retirement Plans:**

- a) Obtain a list of the retirement plans for which contributions were made during the quarter, which includes the total plan liability of each such plan. Confirm the total withholdings and contributions agree with the payroll journal or similar source record and note any differences
- b) From the schedule above, select at random a plan or plans representing at least 25% of the total contributions for all plans. For the selected plan(s), obtain a report detailing liabilities by processed payroll and perform the following procedures for the selected plan(s):
  - i. Randomly select a month in the quarter and trace liabilities (or a random sample thereof, as specified in Instruction II, above) to the cash disbursements journal, or its equivalent and note any material differences.
  - ii. Determine if all such withholdings were deposited to the plan no later than the 15<sup>th</sup> business day of the month following the month in which the amounts were withheld and note any material differences.
  - iii. Trace all such payments to the bank statement and note any payments that did not clear the bank.
  - iv. Review results of the above step conducted for the previous fiscal quarter and note any payments that have not yet cleared the bank.

**3. Agreed Upon Procedures for Quarterly Verification of Payment of Fully Insured Major Medical Premiums:**

- a) Obtain a schedule of the Fully Insured major medical insurance policies for which contributions were made during the quarter, including the amount of withholdings, premium liability, and any other contributions. Confirm the total withholdings and contributions agree with the payroll journal or similar source record and note any unreconcilable differences.
- b) From the schedule prepared above, select at random a major medical policy or policies representing at least 25% of the total premium liability for the quarter for all major medical policies sponsored by the PEO and perform the following procedures for the selected health policies:
  - i. Select at random a month within the quarter and trace the premiums owed for the selected policy or policies as shown on carrier premium invoices or as specified in policy documents to the general ledger recording of those premiums as a liability and note any material differences.

- ii. Trace the payment of recorded premium liabilities to the cash disbursements journal, or its equivalent, and note any material differences.
- iii. Trace all such payments to the bank statement and note any payments that did not clear the bank.
- c) Review results of the above step conducted for the previous fiscal quarter and note any payments that have not yet cleared the bank.

**4. Agreed Upon Procedures for Quarterly Verification of Payment of Self Insured or Partially Self Insured Group Health Insurance Plan Funding Requirements:**

- a) Randomly select a month within the quarter using notices of contribution requirements or other information provided by the third-party claims administrator ("TPA"). Trace reported liabilities (or a random sample thereof, as specified in Instruction II, above) for all such plans to the general ledger recording of these liabilities and note any material differences.
- b) Trace the total of withholding from employees (or a random sample thereof, as specified in Instruction II, above) to the recorded liability account in the general ledger, and subsequent payment through the cash disbursements journal, or its equivalent and note any material differences.
- c) For the above step b) conducted for the previous fiscal quarter, compare the date of all such payments to the date the payment cleared the bank statement and note any payment that cleared the bank more than 15 business days after the date of the recorded payment.
- d) Request from the TPA a written confirmation of the current amounts due to the TPA and verify that the payables have been properly recorded in the PEO's general ledger. Note any payments that were not made timely or within the terms of the plan.

**5. Quarterly Verification of Payment of Fully Insured Workers' Compensation Insurance Premiums:**

- a) Obtain a schedule of the Fully Insured Workers' Compensation insurance policies for which premiums were due during the quarter, including the amount of accrued liability and any payments. Confirm the liability with the payroll journal or similar source record and note any differences.
- b) From the schedule prepared above, select at random a workers' compensation policy or policies representing at least 25% of the total premium liability for the quarter for all workers' compensation policies sponsored by the PEO and perform the following procedures for the selected policies:
  - i. Select at random a month within the quarter and trace the premiums owed for the selected policy or policies as shown on carrier premium invoices or as specified in policy documents to the general ledger recording of those premiums as a liability and note any material differences.
  - ii. Trace the payment of recorded premium liabilities to the cash disbursements journal or its equivalent and note any material differences.
  - iii. Trace all such payments to the bank statement and note any payments that did not clear the bank.
  - iv. Review results of the above step conducted for the previous fiscal quarter and note any payments that have not yet cleared the bank.

**6. Quarterly Verification of Payment of Self Insured or Partially Self Insured Workers' Compensation Insurance Plan Funding Requirements:**

- a) Randomly select a month within the quarter using notices of contribution requirements or other information provided by the third-party claims administrator ("TPA"). Trace contribution requirement (or a random sample thereof, as specified in Instruction II, above) of all such plans to the general ledger recording of these liabilities and note any material differences.
- b) Trace each contribution requirement (or a random sample thereof, as specified in Instruction II, above) from the recorded liability account above to the cash disbursements journal or its equivalent and note any material differences.

- c) For the above step conducted for the previous fiscal quarter, note any payment that cleared the bank more than 15 business days after the date of the recorded payment.
- d) Request from the TPA a written confirmation of the current receivables due to the TPA and verify that the payables have been properly recorded in the PEO's general ledger. Note any payments that were not made timely or within the terms of the plan.