

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 92527 / July 30, 2021

ACCOUNTING AND AUDITING RELEASE
Release No. 4236 / July 30, 2021

ADMINISTRATIVE PROCEEDING
File No. 3-20443

In the Matter of

**PAYCOM SOFTWARE,
INC.,**

Respondent.

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTION 21C OF THE SECURITIES
EXCHANGE ACT OF 1934, MAKING
FINDINGS, AND IMPOSING A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Paycom Software, Inc. (“Paycom” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-And-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-And-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds¹ that:

Summary

This matter concerns violations of the federal securities laws in connection with Paycom's books and records and internal accounting controls, which first attached in April 2014 when Paycom became a public company. Paycom has overstated reported recurring revenues for 2011 through 2020 as a result of its "reselling" services (i.e., billing clients for services for which they were already paying) during the period from 2011 through 2018. Certain of Paycom's Client Relations Representatives ("CRRs") – sales personnel who provide additional services to existing clients – identified instances where clients had been sold and were paying for a service offered by Paycom but were unaware that they had the service. The CRRs would then resell the same service to the client, and bill an additional fee despite not providing any additional service. Paycom's incorrect reporting of revenues by including these resold amounts peaked in 2016, while overbilling of clients from reselling in current and prior periods caused reported revenues to be inaccurate from 2011 through 2020 in amounts representing less than 0.2% of reported recurring revenues for each period.

Paycom's internal accounting controls were insufficient to prevent the inaccurate reporting of revenues resulting from the reselling of its services and the overbilling of clients due to reselling initiated during earlier periods. Concerns regarding reselling were raised by an employee in 2016. Changes to Paycom's internal controls in 2016, which were not designed to address reselling and overbilling, were followed by a significant reduction in new instances of reselling. In 2019, Paycom instituted an internal accounting control specifically related to reselling and overbilling.

In response to the Commission staff's investigation, Paycom has identified approximately 269 instances of reselling that occurred across approximately 245 client codes from approximately 2011 to 2018, and the overbilling from these instances caused revenues to be inaccurate from 2011 through 2020. Paycom had between 10,000 to approximately 31,000 client codes from the end of 2013 to the end of 2020. Beginning in 2019 and continuing into 2021, Paycom has returned to clients identified as having been resold services approximately \$2.8 million in the aggregate, representing \$2.4 million in revenue previously recognized and \$385,000 in related interest.

Respondent

1. Paycom is a Delaware corporation with its headquarters in Oklahoma City, Oklahoma and sales offices throughout the United States. Founded in 1998, Paycom is a provider of cloud-based human capital management ("HCM") software delivered as software-as-a-service. Since becoming a public company in April 2014, Paycom's common stock has been registered

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

with the Commission pursuant to Section 12(b) of the Exchange Act and trades on the New York Stock Exchange under the symbol “PAYC.”

Background

2. Paycom provides HCM services, including talent acquisition, time and labor management, payroll, talent management, and human resources management, with all clients utilizing at least the payroll service. Paycom instituted a CRR department in 2011. CRRs are responsible for providing additional services to Paycom’s existing clients. CRRs receive a one-time commission based on an estimate of future annual revenues from the client and receive their commission when an existing client purchases and then utilizes an additional Paycom service for at least one payroll cycle.

3. Paycom’s total reported revenues are comprised of “recurring” and “implementation and other” revenues. Recurring revenues include fees for talent acquisition, time and labor management, payroll, talent management, and human resources management services, as well as fees charged for form filings and delivery of client payroll checks and reports. Fees charged to clients for services provided by Paycom are collected at the same time that Paycom withdraws funds for the client’s payroll directly from the client’s bank account.

Books and Records Violations

4. Reselling and overbilling of clients was accomplished primarily by moving the fee for a non-payroll “additional billing” (“AB”) service within Paycom’s billing system to another fee category, and adding a new fee in its place during the same or a later payroll cycle, or by adding fees for the same AB service to existing fees. This reselling and overbilling could be accomplished by increasing existing fees, adding a per-check fee to an existing per-payroll fee, or adding a per-payroll fee to an existing per-check fee. Certain Paycom CRRs identified clients that were unaware they were paying for, and had access to, an AB service or services. In some instances, as preparation for the reselling, a CRR would arrange for access to the service to be deactivated by support personnel so clients would not discover that they already had access to that service. Then, the CRR would resell the same AB service to the client and charge the client for it again, resulting in increased recurring revenues. At least 32 CRRs and CRR managers in at least 15 of Paycom’s offices were involved in this practice.

Internal Accounting Control Violations

5. In February 2016, an employee raised concerns about reselling to a director in the accounting department. As a result, a vice president sent a text message instructing CRR managers to inform CRRs that reselling was not allowed moving forward. Later in 2016, new instances of reselling fell significantly. However, some new instances of reselling occurred and additional recurring revenue continued from reselling that had previously been initiated.

6. In February 2017, allegations of reselling were received by Paycom.

7. In October 2018, Paycom contacted the staff after learning of the staff's investigation. In September 2019, Paycom instituted an internal accounting control specifically related to reselling and overbilling requiring verification that a client has not previously been billed for a newly-sold service before the new billing for that service can be established.

Paycom's Remedial Efforts

8. In determining to accept the Offer, the Commission considered remedial acts undertaken by Respondent.

Violations

9. As a result of the conduct described above, Paycom violated Section 13(b)(2)(A) of the Exchange Act, which requires reporting companies to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of their assets.

10. As a result of the conduct described above, Paycom violated Section 13(b)(2)(B) of the Exchange Act, which requires all reporting companies to devise and maintain a system of sufficient internal accounting controls.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 21C of the Exchange Act, Respondent cease and desist from committing or causing any violations and any future violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act.

B. Respondent shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of \$250,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717.

Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or

- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Paycom Software, Inc. as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Sanjay Wadhwa, Senior Associate Regional Director, Division of Enforcement, Securities and Exchange Commission, 200 Vesey Street, Suite 400, New York, NY 10281.

C. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary