

This section is intended to identify services provided to financial institutions and/or other businesses and to evaluate the adequacy of controls over these services. If information processing services are not provided to other corporate entities (including affiliate organizations), completion of this section is not required. The examiner should document any findings, especially those which do not satisfy the recommendations in the *1996 FFIEC IS Examination Handbook*.

Tier I

1. Obtain a list of services performed by the information processing center.
 - a. For each serviced financial institution include:
 - 1) Type of charter.
 - 2) Name and address (city, state).
 - 3) List of applications performed.
 - b. For nonfinancial customers include:
 - 1) Services provided.
 - 2) Number of customers for each service.
 - c. Indicate if any customers included under (a) or (b) are affiliated with the service center.
2. Determine the level of servicing provided to others. Note if the service includes:
 - a. Inputting customer information at the servicer's location.
 - b. Inputting customer information at the customer's location (RJE - Remote Job Entry).
 - c. A facilities management operation.
 - d. The sale of hardware, software, or both.
 - e. Support and maintenance of hardware or software products.

3. If servicer is a financial institution, determine if services performed are in compliance with all applicable regulations, such as the Bank Service Corporation Act, and Sections 23A and 23B of the Federal Reserve Act. (See Chapter 24, Laws and Regulations).

CONTRACTS

4. Determine if written contracts are in effect for all customers.
5. Review a copy of the contract(s) used and determine if they are in conformance with the guidelines contained in this *Handbook*.

SERVICE QUALITY

6. Determine if the level of service is acceptable by:
 - a. Reviewing management reports. (Daily service logs, quality indicator reports, etc.)
 - b. Reviewing the customer complaint file and the methods used to handle complaints.
 - c. Reviewing customer payment records for any payments made under protest.
 - d. Reviewing the minutes of the User Group if applicable.
7. Review management reports used to monitor the customer service function. Determine whether information received by customer service representatives is appropriately categorized, summarized, and used to provide feedback on problems encountered, user training weakness, customer service requests, etc.

CONCLUSIONS

8. Review the results of work performed in this section and in sections for Examination Planning, Internal/External audit, and Management (Chapters 3, 8, and 9). If the results reflect significant control deficiencies, or you are unable to reach a conclusion, perform additional procedures, as necessary, in other relevant sections. Workpapers

should reflect the examiner's reasons for the performance or exclusion of Tier II procedures.

9. Discuss with management:
 - a. Violations of law, rulings, regulations, or significant internal control deficiencies.
 - b. Recommended corrective action for deficiencies cited.
 - c. Management's proposed actions for correcting deficiencies.
10. Assign rating. (See Chapter 25 for additional information on FFIEC SP-2: Uniform Interagency Rating System for Data Processing Operations.)
11. Prepare an index of workpapers for this section of the workprogram.
12. Prepare a separate summary findings worksheet for this section of the workprogram. The summary should include a discussion of IS control strengths, weaknesses, deficiencies, or other problem and/or high risk areas. Also include, important facts, findings, examiner conclusions, and, if applicable, recommendations. Present conclusions about the overall condition of IS activities in this workprogram area. In addition, provide any additional information that will facilitate or enhance future examinations. (See Chapter 2 for additional information on supervision by risk and supervisory strategies.)
13. Prepare draft report comments for reportable findings and/or matters to be included in the administrative section of the ROE.

Examiner | Date
_____ | _____

Reviewer's Initials

Tier II

CONTRACTS

1. Do contract provisions specify:
 - a. Specific work to be performed by the servicer?
 - b. The basis of costs, including development, conversion and processing, and additional charges for special requests?
 - c. The established time schedules for receipt and delivery of work?
 - d. Responsibilities for security of the communications network?
 - e. Audit responsibility, including the right of user representatives to perform audit procedures?
 - f. Backup and record protection provisions (equipment, programs, data files) to ensure timely processing by the service center in emergencies?
 - g. Servicer disaster recovery plans are provided to the serviced institution for review?
 - h. Provisions for sharing disaster recovery plan test results with serviced financial institutions.
 - i. Liability for source documents while in transit to and from the service center? (If the service center is responsible, the servicer should have adequate insurance coverage for such liabilities.)
 - j. Maintenance of adequate insurance in case of data losses through error and omissions?
 - k. Confidential treatment of records?
 - l. Ownership of computer programs and related documentation?
 - m. Ownership of master and transaction data files and their return in machine readable format upon the termination of the contract or agreement?

- n. Price changes, cost and method of canceling the contract, including adequate time allowance?
 - o. Processing priorities?
 - p. Notification from the service center to the users of all changes that would affect procedures, reports, etc.?
 - q. That financial information is to be periodically (preferably annually) provided by the servicer to serviced institutions?
 - r. Training provisions, including cost, for financial institution personnel?
 - s. Allowable actions in the event of receivership or bankruptcy?
 - t. Penalty clauses, if any, for early cancellation of the contract?
 - u. Prohibitions against assignment of the contract services by either party without the prior written consent of the other?
2. Do the terms of the contracts provide adequate protection and establish limits of liability for both the servicer and the user?

SERVICE QUALITY

- 3. Are services performed according to the contract terms?
- 4. Does the service center maintain a customer complaint file?
- 5. Does the center investigate and attempt to resolve all complaints received?
- 6. Do exception reports meet the needs of the users?
- 7. Are users provided training to understand each automated application commensurate with their job responsibilities?

Comments

8. Are customers provided with current user manuals?

Does each user manual cover:

- a. The preparation and control of source documents?
- b. Control, format and use of output?
- c. Settlement and reconciliation procedures?
- d. Data security responsibilities of serviced financial institutions?

9. Proceed to procedure 8, Tier I.

Examiner | Date

_____ | _____

Reviewer's Initials