

(FILE NAME ON DISK # 1 = S1C5.WPD)

The rating system for data processing operations is similar to the "Uniform Interagency Bank Rating System," which is used for federally regulated financial institutions and is based upon an evaluation of the overall financial institution performance. The IS rating system is explained in FFIEC SP-2 Uniform Interagency Rating System for Data Processing Operations. This policy was issued by the FFIEC and all member agencies in October 1978. This FFIEC SP (Standard Policy) issuance identifies four basic component areas that are common to all IS organizations (see Chapter 25 for additional information). It applies to an organization that maintains an internal IS department or uses a private servicer.

Each data center will be assigned a composite rating based upon the separate component or performance ratings assigned by the IS examiner to the IS functional areas. Each of these functional areas: Audit, Management, Systems Development and Programming, and Operations, will also receive a component rating at every IS examination.

COMPOSITE RATINGS

The composite rating can range from 1 through 5, with 1 representing the best and 5 the worst rating. To arrive at the composite rating, the interrelationships and relative importance of the four functions rated under the component ratings must be considered. Occasionally there will be factors that are not reflected in any specific performance rating, but are important to the data center's overall condition. They should be reflected in the organization's final composite rating. Each composite rating is described as follows:

Composite - 1

Data centers in this group are sound in almost every respect. If deficiencies are noted, they are minor and can be handled routinely and without further supervisory involvement.

Composite - 2

Data centers in this group are fundamentally sound, but may reflect modest weaknesses. Deficiencies are generally corrected in the normal course of business. Therefore, the need for supervisory response is usually limited.

Composite - 3

Data centers in this group experience a combination of adverse factors that require prompt corrective action. Problems are well defined and require more than ordinary supervisory concern and monitoring. The overall strength of management and supporting staff and the financial capacity of the data center is such as to make operation failure only a remote possibility.

Composite - 4

Data centers in this group are operating under unacceptable conditions that could impair future viability. A high potential for operational and/or financial failure is present. Still weaknesses are not so severe as to threaten the immediate failure of the data center. Immediate affirmative action and supervision by the regulator are necessary.

Composite - 5

Data centers in this group exhibit a combination of weaknesses and adverse trends that are pronounced to a point that threatens the ultimate continuation of the operation. Immediate affirmative action and continuous supervision, as required by the regulator, are necessary.

COMPONENT RATINGS DEFINITIONS

Each performance or component rating also ranges from 1 through 5, with 1 representing the highest and 5 the lowest rating. Each functional area of activity (Audit, Management, Systems Development and Programming, and Operations) must be evaluated to determine its individual performance rating.

Each performance or component rating is described as follows:

Component - 1 – Strong performance

Performance that is significantly higher than average.

Component - 2 – Satisfactory performance

Performance that is average or slightly above and that provides adequately for the safe and sound operation of the data center.

Component - 3 – Fair performance

Performance that is somewhat flawed and is considered to be of below average quality.

Component - 4 – Unsatisfactory performance

Performance that is significantly below average and, if left unchecked, might evolve into weaknesses or conditions that could threaten the integrity of the records processed and the viability of the institution or data center.

Component - 5 – Hazardous performance

Performance that is critically deficient and in need of immediate remedial attention. Such performance threatens the integrity of the records being processed and the viability of the institution or data center.

COMPONENT RATING AREAS OF COVERAGE

Audit – is rated (1 through 5) for:

- Audit overview
 - Audit effect positive change to reduce risk
 - Adequate audit coverage (timely/competent)
 - Based on complete universe
- Audit Organization
 - Independence
 - Board of directors' support
 - Resources allocated
 - Management and staff succession
- Audit Staffing
 - Adequacy
 - Qualifications
 - Training
- Internal/External Audit Activities
 - Quality of audits scope
 - Frequency

Standards and procedures

- Adequacy and
- Compliance
- Follow-up and correction of exceptions
- Working papers and documentation
- Completeness
- Security
- Audit software
- Use
- Effectiveness
- Documentation
- Audit reports

Management – is rated (1 through 5) for:

- Effectiveness of Management
 - Organization
 - Resources allocated
 - Leadership
 - Administrative abilities
 - Qualifications
 - Delegation of responsibilities
 - Support
 - Management succession
- Correction of Deficiencies
- Compliance Performance
 - Laws and regulations
 - Awareness
 - Compliance
 - Contracts
- Planning and Direction
 - Planning
 - Strategic (longer term of 3 - 5 years)
 - Tactical (shorter term of 1 - 2 years)
 - Operational (less than 1 year)
 - Risk analysis
 - User involvement
 - Senior management involvement
 - Budget
- Corporate Information Security Program
 - Enterprise-wide basis
 - Mission statement developed
 - Formal awareness program
 - Status and health of program
- Corporate Contingency Planning
 - Enterprise-wide basis

User/functional departmental basis
Appropriate integration of IS D/R planning
Status and health of program

- Standards and Procedures
 - Development
 - Enforcement
- Internal Controls
 - Development
 - Enforcement
- Physical Security
 - Development
 - Enforcement
- Adequacy of MIS
 - Senior management/board level
 - Departmental level
 - Timely, accurate, consistent, and relevant
- Financial Condition

Systems Development and Programming

– is rated (1 through 5) for:

- S&P Organization
 - Separation of duties
 - Resources allocated
 - Management and staff succession
- Staffing
 - Adequacy
 - Qualifications
 - Training
- Standards and Procedures
 - Adequacy
 - Compliance
 - User liaison
- Documentation
 - Completeness
 - Organization
 - Storage and security
- Internal Controls
 - Modification and change procedures
 - authorization, documentation, and
 - implementation

Program library maintenance
Systems development

- Physical Security
 - Documentation
 - Software
 - On-line systems

Operations – is rated (1 through 5) for:

- Operations organization
 - Separation of duties
 - Resources allocated
 - Management and staffing succession
- Staffing
 - Adequacy
 - Qualifications
 - Training
- Standards and Procedures
 - Adequacy
 - Compliance
 - User liaison
- Operations
 - Processing concerns:
 - Data entry control
 - Processing controls
 - Output distribution controls
 - Security - physical and data
 - Emergency planning
 - Data center disaster/recovery planning
 - User communication
 - Operations Activities:
 - Networking
 - End-user computing
 - Document Imaging
 - EFT activities - wholesale, retail, ACH
 - IS servicing as provider and receiver

The overall order of the Supervisory Tools section of this Handbook list the narrative chapters and their related workprograms as they would appear in the component rating categories.

COMPONENT	RATING	RELATIONSHIPS
Primary Component Rating Area	Chapter Number Reference	Related Handbook Chapters
Audit	8	Internal/External Audit
Management	9	Management
	10	Corporate Contingency Planning
	11	MIS Review
Systems and Programming	12	Systems Development and Programming
Operations	13	Operations
	14	Security - Physical and Data
	15	Networking - Client/Server
	16	End User Computing
	17	Document Imaging
	18-21	EFT Chapters (4)
Other	22	IS Servicing - Provider/Receiver ¹

¹ If findings are related to IS Servicing - Provider/Receiver, they should be addressed in this component rating section that most closely relates to the nature of the finding.

FFIEC IS ROE INTRODUCTION

A uniform IS report of examination (ROE) format has been approved by the FFIEC to report the results of IS examinations.

The standard IS examination report format provides for:

- Standardized reporting for both financial

institutions and service bureaus.

- Enhanced coordination among FFIEC member agencies.
- The regulatory oversight needs of FFIEC agency supervisory and management personnel.

GUIDELINES FOR COMPLETING

Each FFIEC agency may supplement the following guidelines with additional instructions. All required sections, however, must be completed for reports to be used on an interagency basis.

All FFIEC IS examination reports have two sections. The open section, which is distributed to examined entities and an administrative section, which is confidential and for regulatory agency use only. The open section of service bureau reports may also be distributed to the regulated financial institutions that are service bureau customers.

SECTIONS OF ROE

All significant matters of an objective nature should be presented in the open section.

Matters of a proprietary nature should not be included in the open section of service bureau reports. Examples of proprietary information include, but are not limited to, marketing plans, development plans, and certain contract terms.

Subjective matters should be placed in the administrative section of the report.

Correspondence, other than the service bureau examination report, should be used to:

- Transmit ratings to service bureau boards of directors.
- Remind serviced institution management periodically of their continuing responsibility to assess regularly how the institution needs are being met by a service bureau.

OPEN SECTION – REQUIRED AND OPTIONAL PAGES

Cover Page (Required)

Interagency reports of examination should use the standard interagency cover page. Each agency has the option of using either its own cover page or the standard FFIEC cover page on its institution's examinations.

Table of Contents (Optional)

The use of this page depends upon the complexity and length of the report and on the degree to which the presentation of the examination findings will be enhanced by its inclusion. When used, major sections should be listed in order of their appearance in the report.

Examiner's Conclusions (Required)

Information should include:

- **Scope and Objectives of the Examination** – A description of areas examined and procedures employed. The limitation, waiver, or expansion of certain examination areas should be noted and fully explained.
- **Summary of Major Findings** – A general description of major examination findings. The findings should be presented in order of their importance. (All findings NOT included in the summary should be identified on a separate listing and left by the examiners with management.) References to areas where significant operational and procedural deficiencies or internal control weaknesses were observed should be included. The reader should be referred to the specific "Supporting Comments" page(s) for detailed descriptions of these deficiencies and recommendations for corrective action.

The last paragraph should list senior level management with whom the examination findings were discussed. The list should be limited to those persons with broad responsibility for the major areas examined, i.e., audit, systems and programming, and operations. Senior management responsible for information systems operations should always be included.

Comments in the summary section should be directed to the attention of the board of directors and senior management and should be brief, non-technical, and limited to the most significant issues. Describe the findings in terms of the risk(s) presented and potential effect on the organization and its customers.

- **Conclusions** – Present a summary of the overall condition of the information systems examined, including comments on the improvement or deterioration of the operation. Avoid single-word evaluations, such as good, fair, poor, strong, or weak. The summary should include, as appropriate, brief comments about past performance (with emphasis on effecting corrective measures), the seriousness of existing weaknesses, and future prospects for the information system. Also include information on any corrective action that management has indicated will be undertaken.
- **Composite Rating** – These remarks should document the performance evaluation of the entity in accordance with FFIEC's SP-2 Uniform Interagency Rating System for Data Processing Operations. Following the numerical composite rating, the exact language for that rating in FFIEC SP-2 should be inserted, so that the board members and management have a clear and common understanding of the examiner's overall conclusions. Supporting comments should precede the composite rating in this section of the report.

Note: The composite rating for organizations that service regulated entities should not be disclosed to, or discussed with, the serviced federally insured financial institutions. It should be communicated in the examination report transmittal letter. The composite rating for examinations of institutions not servicing other regulated entities should be disclosed in the Conclusions section.

- **Signatures** – The authoring EIC must sign the report at the bottom of the "Examiner's Conclusions" page. Other signatures required by the authorizing agency should follow and include appropriate titles.

Violations of Laws and Regulations (Optional)

This page should be completed whenever specific violations of laws or regulations are discovered during an examination. Comments should cite the law(s) or regulation(s) violated followed by a brief description of the violation and management's response about corrective measures.

Supporting Comments (Required)

Operating and procedural deficiencies and internal control weaknesses identified during the examination should be discussed in this section. Detailed comments should be presented to support the findings cited in the Examiner's Conclusions section. Supporting comments should be listed in the order of relative importance consistent with the Examiner's Conclusions page. Individual comments should, at a minimum, include:

- A detailed description of the deficiency, identifying the risk to the organization if not addressed by management.
- Examiner's recommendation to address the deficiency.
- Management's response and corrective action plan.
- The examiner's analysis of management's response (if necessary).

The findings must be described in terms of the risks they present and their effect on the organization and its customers.

Every effort should be made to obtain management's commitment to a reasonable time frame for implementing corrective measures. Deficiencies noted in consecutive examinations should be highlighted and given priority. If a significant number of repeat deficiencies are noted, this information should be reported in the Examiner's Conclusions section of the report and should be commented upon in the management section of the report.

Note: Only substantive items should be presented in

the Supporting Comments section. Less significant exceptions and weaknesses should be discussed with management and, if appropriate, listed separately to be given to management at the completion of the examination. Such a list should be referenced in these pages or in the "Examiner's Conclusions" section, and a copy should be retained in the workpapers.

Director's Signature Page (Required)

This page should be included in all IS ROEs. Once the final ROE is returned to the institution's directors they should be instructed in the transmittal letter sent by the supervisory agency to fully review the IS ROE at a following board of directors meeting. Once this review has occurred, the directors must sign the *Director's Signature Page* to attest to the fact that each of them have personally reviewed and understand the contents of the IS ROE. They should date their signature to indicate the date of their review.

ADMINISTRATIVE SECTION – REQUIRED AND OPTIONAL PAGES

Only matters that are subjective or considered inappropriate for disclosure in the open section of the examination report should be presented in this section. In addition, financial data should be included for all service bureaus. Basic information about the entity being examined, the type of examination, and the participating supervisory agencies should also be included in the administrative section. Most of the items are self-explanatory. The "Type of Examination-Agency" subsection should indicate whether the examination is joint or rotated and the authoring agency identified by the appropriate abbreviation, (e.g., FDIC, FRB, NCUA, OCC, OTS.) In non interagency examinations, the authoring agency should be identified first and followed by any other information required by individual agency policies. For multisite examinations, hours for all data centers should be included in the corporate report and in the individual subsidiary reports.

Administrative Remarks (Required)

These remarks should document the performance evaluation of the entity in accordance with FFIEC's SP - 2 Uniform Interagency Rating System for Data

Processing Operations. Each numeric rating should be substantiated by brief narrative comments. For multisite examinations, all subsidiary data center ratings should be included in this section and summarized.

Comments should convey a clear assessment of the condition of each function as well as the overall condition of the information systems operation. They should not merely restate the conclusion from the "Examiner's Conclusions" page(s). The numeric ratings and accompanying comments should include recommendations for follow-up action and additional subjective comments.

Statistical Data (Required)

This page(s) should contain statistical information necessary to supervise the institution/ service bureau adequately and process the report. This information should be requested at or before the beginning of the examination. Instructions for completing various pages include:

- Applications – Present a list of the major applications processed by the service bureau for itself and for serviced financial institutions that are federally insured. The applications should be numbered sequentially, i.e., 1, 2, 3, 4, and typed under the heading "Code." The sequence number will serve as a key for the "Serviced Financial Institutions" portion. The "Application" portion should indicate the processing mode(s) for each application listed. The modes are defined as:
 - *Batch updating* – Daily transactions activity is accumulated off-line and is run once at the end of the processing cycle (usually daily) to update the customer master files.
 - *Memo post/On-line updating* – Transaction activity against customer master files are accumulated during the day on the system and actual updating of the customer master file records occurs at a later scheduled time during that processing cycle.
 - *Real-time updating* – Transactions are posted to the data files as they occur. Customer files are updated in place.

Note: If appropriate indicate the combinations of these processing modes.

- Serviced Financial Institutions – List names and locations of federally insured serviced financial institutions. The list should be grouped by regulatory category, i.e., national banks, state member banks, state nonmember banks, savings and loan associations, and credit unions. This listing can either be included in the IS ROE or transmitted separately.
Applications processed should be identified in the right-hand columns, using the keys assigned in the application section. (This information may also be provided as a separate attachment to the administrative section of the examination.)

Other Servicing (Required)

- Other Servicing – At a minimum, include the number of customers omitted from the previous categories and the types of processing performed for these organizations.
- System Description – Provide details of the major hardware, software and, if applicable, teleprocessing configurations used by the facility.
 - *Hardware* – At a minimum, specify the manufacturer, model number, and core storage capacity of the mainframe used. Detail other information as appropriate or as required by the individual agencies.
 - *Software* – Indicate the primary programming languages used and the major sources of software, e.g., developed in-house, software packages, contract programmers. If software packages are used indicate from whom packages were purchased.
 - *Networking/Teleprocessing* – If networks are used, indicate the general configuration of the system, specifying remote entry sites, free standing satellite centers, and the number of terminals.
- Organizational Structure – Provide general staffing and examination contact information. Also, list principal officers and managers responsible for the center's operation by name, title, and phone number. If the organization is a

financial institution, provide total asset and deposit figures. The type and name of the organization should be specified on the ownership portion of this section. Types of organization might include financial institution (bank, S&L, or credit union), financial institution or holding company subsidiary, bank service corporation, private corporation, joint-venture, facilities management (specify contracting financial institution), partnership, etc. If the organization is not a financial institution, the major owners and directors should be listed.

Financial Data (Required for all Service Bureaus)

This page should be completed for all service bureaus that are not financial institutions. Data should be included for the last three fiscal years.

Audited financial statements should be requested. If they are not available, unaudited statements will be acceptable. If interim statements are obtained, they should be detailed on a separate page, footnoted to indicate that they are interim statements, and inserted behind the year-end statements.

Significant footnotes in the financial statements should be summarized on a blank insert page and included at the end of the financial data.

If the servicer is part of a regulated financial organization, the examiner should use existing regulatory financial and analytical information (CAMEL rating, BOPEC rating, MACRO rating, etc.), in the review and analysis of the parent company.

If the service bureau is a subsidiary of a nonbank holding company or other nonfinancial corporation, both consolidated and company financial statements should be requested and analyzed by the examiner. Consolidated statements should be detailed on separate pages, footnoted to indicate they are consolidated statements and inserted after the

company year-end and interim statements.

Additional Information (Optional)

This page is provided to address specific requirements of the various regulatory agencies. Information included would be items such as the location of workpapers and reports requested to support safety and soundness or compliance examinations.

In-house Examinations vs. Service Bureau Examinations

The examiner should be aware that there are differences between the format used for in-house examinations and that used for Service Bureau examinations. The basic differences are:

- Cover page(s).
- Rating disclosure.
- Financial Analysis.

The cover page(s) will differ among agencies, so refer to the appropriate agency policies. If a joint examination, the cover page(s) used will be that of the lead agency.

The attachments that follow may be used as an example of a report of examination. It should be noted that the cover page(s) are standard and required, even though each agency may have slightly different wording. The other pages are examples only and may be changed to conform to each agency's policies.

A sample of each required and optional page for the FFIEC IS ROE follows.

FFIEC INFORMATION SYSTEMS

REPORT OF EXAMINATION

[Fin. Inst. or Servicer]
[City] [County] [State]
Examination Date: [Examination Date]

PARTICIPATING AGENCIES

AGENCY	REGION/DISTRICT
[Agency]	[Region/District]
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Examiner(s): [Examiner-In-Charge]

THIS REPORT OF EXAMINATION IS STRICTLY CONFIDENTIAL

This copy of the examination report is the joint property of the above regulatory agencies and is furnished to the data center for its confidential use. The information contained in this document is based upon the records and books of the center, upon statements made by the directors, officers, and employees, and upon information obtained from other sources believed to be reliable and correct.

This examination is not an audit and should not be construed as such. It does not replace, nor relieve management of its responsibility for making or providing for adequate audits of the center.

Under no circumstances shall any recipient of this report, or any of its directors, officers, employees, attorneys or auditors disclose or make public this report or any portion thereof. The law provides penalties for unauthorized disclosure of any of the contents of this report. If a subpoena or other legal process is received calling for the production of this report, the office of the agency that transmitted this report must be notified immediately.

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Agency Examiner-in-Charge

Agency Director

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STATISTICAL DATA (Continued)

Serviced Financial Institutions													
Name and Location	Application (By Code)												

OTHER SERVICING

Number of Customers:

Applications Processed:

System Description

Hardware:

Software:

Teleprocessing:

Organizational Structure

Staff Size:	Operations	_____	S & P	_____	Total	_____
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Examination Contact:

Officers/Managers:

If financial institution,
give total assets:

Total
Deposits:

Ownership:

Type here.

Directors:

Type here.

FINANCIAL DATA

Condensed Balance Sheet for Nonfinancial Institution Servicer.

CONDENSED BALANCE SHEET

As of

	19XX	19XX	19XX	19XX
ASSETS				
Cash				
Accounts Receivable				
Prepaid Expenses				
Other Current Assets				
CURRENT ASSETS	0	0	0	0
Real Estate				
Furniture & Fixtures				
Software				
Software Amortization				
Hardware				
Hardware Depreciation				
Goodwill				
Other Assets				
TOTAL ASSETS	0	0	0	0
LIABILITIES AND CAPITAL				
Notes Payable Banks				
Notes Payable Others				
Accounts Payable				
Accrued Expenses				
Taxes				
Other Current Liabilities				
CURRENT LIABILITIES	0	0	0	0
Term Debt				
Other Debt				
Subordinated Debt				
Long-Term Capital Leases				
TOTAL LIABILITIES	0	0	0	0
EQUITY CAPITAL	0	0	0	0
TOTAL LIABILITIES & EQUITY CAPITAL	0	0	0	0

000's Omitted.

FINANCIAL DATA (Continued)

Condensed Income Statement for Nonfinancial Institution Servicer.

CONDENSED INCOME STATEMENT	As of			
	19XX	19XX	19XX	19XX
OPERATING INCOME				
Data Processing Servicing Income				
Other Income				
TOTAL OPERATING INCOME	0	0	0	
OPERATING EXPENSES				
Mainframe Hardware and Software:				
Lease and Rental				
Depreciation				
Repairs and Maintenance				
Contract Programming				
License Fees and Amortization				
Other				
Other Operating Expenses:				
Compensation				
Data Communication				
Occupancy Expense				
Benefits and Travel				
Public Relations & Advertising				
Other Operating Expenses				
TOTAL OPERATING EXPENSES	0	0	0	
NON-OPERATING				
Non-operating Income:				
Interest Income				
Other Non-operating Income				
Non-operating Expenses:				
Interest Expense				
Other Non-operating Expenses				
NET NON-OPERATING INCOME	0	0	0	
INCOME BEFORE TAXES	0	0	0	
Applicable Income Taxes				
NET INCOME BEFORE EXTRAORDINARY ITEMS	0	0	0	
Extraordinary Credits (Charges)				
NET INCOME	0	0	0	

000's Omitted.

FINANCIAL DATA (Continued)**SUMMARY OF KEY OPERATING RATIOS**

	19XX	19XX	19XX	19XX
Asset Growth				
Liability Growth				
Capital/Total Assets				
Return on Assets				
Return on Equity				
Net Operating Income/ Gross Operating Income				
Current Assets/Assets				
Debt/Equity				
Current Assets/Current Liabilities				

OPERATING RATIO DEFINITIONS

- 1 **Asset Growth**
(Current Total Assets - Prior Period Total Assets)/Prior Period Total Assets
A significant increase or decrease in total assets may be an indication of problems and should be investigated and explained.
- 2 **Liability Growth**
(Current Total Liabilities - Prior Period Total Liabilities)/Prior Period Total Liabilities
A significant increase in Total Liabilities is a potential indication of cash flow problems and should be investigated and explained.
- 3 **Capital/Total Assets**
Equity Capital/Total Assets
This ratio provides an indication of the amount of losses that can be absorbed before insolvency.
- 4 **Return on Assets**
Current Period Net Income/((Current Period Total Assets + Prior Period Total Assets)/2)*
Return on Assets is an indication of how efficiently the assets are being used.
- 5 **Return on Equity**
Current Period Net Income/((Current Period Equity + Prior Period Total Equity)/2)*
An indication of the return on the capital invested.
- 6 **Net Operating Income/Gross Operating Income**
An indication of the efficiency of the operation.
- 7 **Current Assets/Assets**
An indication of liquidity.
- 8 **Debt/Equity**
Long-term Debt/Equity Capital
An indication of liquidity.
- 9 **Current Assets/Current Liabilities**
An indication of liquidity.

* This ratio should be annualized if current period less than 12 months.

ADDITIONAL INFORMATION
