

FEDERAL RESERVE BANK
OF NEW YORK

At lre. No. 8443
October 30, 1978

UNIFORM INTERAGENCY RATING SYSTEM
FOR DATA PROCESSING OPERATIONS

*To the Chief Executive Officer of Each State Member Bank
in the Second Federal Reserve District:*

Following is the text of a statement issued by the Board of Governors of the Federal Reserve System on their own behalf and on behalf of the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board announcing the adoption of a uniform system for rating data processing operations:

The Federal bank and thrift institution regulators today [October 18] announced a joint system for rating data processing centers.

The system is to become effective immediately. It was adopted by the Office of the Comptroller of the Currency (supervisor of national banks), the Federal Reserve Board (supervisor of State chartered member banks), the Federal Deposit Insurance Corporation (supervisor of State chartered nonmember banks and of insured mutual savings banks) and by the Federal Home Loan Board (supervisor of federally chartered savings and loan associations).

Under the new rating system the four agencies will apply uniform standards to data centers that are operated by banks or thrift institutions supervised by one of the four agencies, and to other data processing centers serving such banks or thrift institutions.

The uniform data processing center rating system follows adoption by the Federal regulators earlier this year of a joint policy for the examination of data processing centers operated by or serving financial institutions they supervise.

Under the joint rating system:

- A performance rating system is established based upon the evaluation of four critical functions: audit, management, systems development and programming, and computer operations.
- Ratings of these functions are combined into a composite-rating.

Enclosed is a copy of a description of the "Uniform Interagency Rating System For Data Processing Operations" as adopted by the four Federal bank regulatory agencies. If your bank is provided with data processing services by an organization other than a financial institution, you may wish to give your processing center a copy of that description. Any questions regarding the rating system may be directed to our Bank Examinations Department (Tel. No. 212-791-5870).

PAUL A. VOLCKER,
President.

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DATA PROCESSING OPERATIONS

The rating system for data processing operations is similar to the "Uniform Interagency Bank Rating System," which is based upon an evaluation of the over-all performance of a bank. The EDP rating system is based upon an evaluation of four critical functions of a data processing operation: audit, management, systems development and programming, and computer operations. Each data center will be assigned a summary or composite rating based upon the separate performance ratings assigned these four functions. Each performance rating and the composite rating are based on a scale of 1 through 5, with 1 representing the highest and 5 the lowest rating. Each function must be evaluated in order to determine its performance rating. To arrive at a composite rating, due consideration must be given to the interrelationships and relative importance of the four functions. Occasionally there will be factors that are not reflected in any specific performance rating but are important to the data center's overall condition and should be reflected in the composite rating.

A general description of each performance rating is as follows:

Rating No. 1 - Strong performance.

Performance that is significantly higher than average.

Rating No. 2 - Satisfactory performance.

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

Rating No. 3 - Fair performance.

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

Rating No. 4 - Unsatisfactory performance.

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

Rating No. 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.

A general description of each composite rating is as follows:

Composite 1

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

Composite 2

Data centers in this group are also 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 are experiencing a combination of adverse factors which 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 are such as to make operational failure only a remote possibility.

Composite 4

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

Composite 5

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

Audit

Audit is rated (1 through 5) with respect to:

A. - Organization

- . Independence
- . Board of Directors support
- . Resources allocated
- . Management and staff succession

B. - Staff

- . Qualifications
- . Training

C. - Quality of Audits

- . Scope
- . Frequency
- . Standards and procedures
 - .. adequacy
 - .. compliance
- . Follow up and correction of exceptions
- . Working papers and documentation
 - .. completeness
 - .. security
- . Audit software
 - .. use
 - .. effectiveness
 - .. documentation
- . Audit reports

Management

Management is rated (1 through 5) with respect to:

A. - Organization

- . Resources allocated
- . Leadership
- . Administrative abilities
- . Qualifications
- . Delegation of responsibilities
- . Support
- . Management succession

B. - Correction of Deficiencies

C. - Laws and Regulations

- . Awareness
- . Compliance
- . Contracts

D. - Planning

- . Risk analysis
- . User involvement
- . Senior management involvement
- . Budget

E. - Standards and Procedures

- . Development
- . Enforcement

F. - Internal Controls

- . Development
- . Enforcement

G. - Physical Security

- . Development
- . Enforcement

H. - Financial Condition

Systems and Programming

Systems and Programming is rated (1 through 5) with respect to:

A. - Organization

- . Separation of duties
- . Resources allocated
- . Management and staff succession

B. - Staff

- . Qualifications
- . Training

C. - Standards and Procedures

- . Adequacy
- . Compliance
- . User liaison

D. - Documentation

- . Completeness
- . Organization
- . Storage and security

E. - Internal Controls

- . Modification and change procedures
 - .. authorization
 - .. documentation
 - .. implementation

- . Program library maintenance
 - . Systems development
- F. - Physical Security

- . Documentation
- . Software
- . On-line systems

Computer Operations

Computer Operations is rated (1 through 5) with respect to:

A. - Organization

- . Separation of duties
- . Resources allocated
- . Management and staffing succession

B. - Staff

- . Qualifications
- . Training

C. - Standards and Procedures

- . Adequacy
- . Compliance
- . User liaison

D. - Operations

- . Data entry control
- . Processing controls
- . Output distribution controls
- . Physical security
- . Emergency plans
- . User communication