

## **Assessment of Controls Over the Employee Clearance Process**

**Reference No. 082102    Date: January 26, 1998**

**This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**

**Assessment of Controls Over the  
Employee Clearance Process**

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## Assessment of Controls Over the Employee Clearance Process

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### Executive Summary

We initiated this review as part of Internal Audit's fiscal year 1997 coverage and its support of the Service's enhanced Federal Manager's Financial Integrity Act (FMFIA) process. The overall objective of our review was to determine if current controls over the clearance process would limit the Service's exposure to risk from financial loss and access to or destruction of taxpayer information. We determined through an assessment that the following areas are among the highest risk. They include:

- Local computer systems, including local area networks
- Integrated Data Retrieval System (IDRS)
- American Telephone & Telegraph (AT&T) and Purchase Bank credit cards
- Emergency salary payments
- Negative annual and sick leave balances
- Release of the final check(s)

The Service's clearance process consists of steps employees and managers must take when employees retire, transfer, separate, or resign from the Service. The Separating Employee Clearance Certificate, Form 5389, is mandatory for use in all offices during the separation process. The Service should take corrective actions to address any significant control deficiencies and follow-up to assure the risk from financial loss and access to or destruction of taxpayer data has been sufficiently mitigated.

### Results

We found the controls over the Separating Employee Clearance Process did not sufficiently mitigate the Service's exposure to risk from financial loss and access to or destruction of taxpayer information. Two regions have declared the clearance process a "significant control deficiency" as part of their fiscal year 1997 FMFIA process. We identified the following areas needing management's immediate attention.

**Functional coordinators, including computer systems administrators, were not always notified or timely notified of employee separations.**

- **Employees left the Service with access capabilities to computer systems containing taxpayer data.**

Methods of preparing and routing Form 5389 did not ensure the separating employee's computer system accesses were timely removed. Local computer systems and IDRS administrators were not notified or timely notified of employee separations

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to remove computer system access capabilities. We did not identify any accesses to local computer systems after employees separated.

The Service is at risk when former employees continue to have the ability to access or affect taxpayer information through local computer systems and IDRS. We identified 21 separated employees who had access to local computer systems. We also identified 76 separated employees who were not timely deleted from IDRS.

- **Employees left the Service with active AT&T and Purchase Bank credit cards.**

Methods of preparing and routing of Form 5389 did not ensure AT&T and Purchase Bank credit cards of separating employees were canceled. AT&T and Purchase Bank credit card coordinators were not notified or timely notified of employee separations to initiate cancellation.

Although the Form 5389 provides a space for credit cards, it does not provide spaces to record the specific types of cards that need to be canceled. These circumstances may have contributed to the non-cancellation of 14 AT&T and nine Purchase Bank credit cards of separated employees. We did not identify any activity or purchases on these credit cards after the employees separated.

### **Designated agents could not always ensure separated employees liquidated financial obligations and returned properties before release of the final check(s).**

Designated agents did not always ensure financial obligations were liquidated and Service properties were returned before releasing the final check(s) to separating employees. Designated agents should not hold final check(s) for unreturned identification badges and building keys, or until computer system capabilities are removed.

We identified 36 of 442 employees that separated from the Service with outstanding negative leave balances. Seventeen of 36 employees had 1,806 hours of unresolved negative leave. The Service took appropriate action for 19 employees to resolve the financial obligation by fully or partially liquidating the outstanding leave balances and establishing bills of collection.

When the employees' final checks are not properly liquidated to resolve the employees' financial obligations or unreturned properties, the potential exists for these liabilities to remain unpaid.

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### **Summary Recommendations**

The following summarizes the specific recommendations contained in the report:

- The Chief, Management and Administration, should ensure Directors, Support Services, designate an employee in each office to be responsible for the clearance process. The designated employee should have access to a personnel system capable of receiving notification of separating employees. The Directors, Support Services, should develop additional procedures for the designated employees' responsibilities. They should provide instructions to managers and functional coordinators to help facilitate the timely completion of the clearance process.
- The Chief, Management and Administration, should coordinate with the Chief, Information Officer, the Chief, Compliance Officer, and the Chief, Financial Officer, to organize a re-engineering committee. Each office should designate a representative(s) for the committee to study the clearance process. The committee should consider all available options, including "off-the-shelf" software packages that could be modified to reflect the Service's organizational changes as well as the needs and responsibilities of each functional area. This would entail changes resulting in a new form design.

### **Summary Management Response**

The Chief, Management and Administration is developing a module using TAPS (Totally Automated Personnel System), to automate the clearance process in the short term. In the long term, a formal re-engineering project will be established to reengineer the entire clearance process. Instructions will be issued to the Directors, Support Services detailing the clearance procedures and the need to designate an employee to be responsible for this process. Management's complete response is included in Attachment II.

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### Objective and Scope

We initiated this review as part of Internal Audit's fiscal year 1997 coverage and its support of the Service's enhanced Federal Manager's Financial Integrity Act (FMFIA) process. We selected two districts in each of the four regions for our review. Specifically, the districts included: the Pacific-Northwest and Northern California Districts from Western Region; the North Texas and North Central Districts from Midstates Region; the Georgia and Delaware-Maryland Districts from Southeast Region; and, the Pennsylvania and Ohio Districts from Northeast Region. We also contacted the personnel functions relating to timekeeping in the service centers to perform research on separated employees and the clearance process. We performed audit work during March through September 1997. The review followed generally accepted government auditing standards.

*To accomplish our objective, Internal Audit reviewed the records of 442 separated employees to determine if controls were effective to ensure employees did not separate with financial indebtedness and/or computer access to taxpayer information.*

The overall objective of our review was to determine if current controls over the clearance process would sufficiently limit the Service's exposure to risk from financial loss and access to or destruction of taxpayer information. Our review consisted of interviews, walk-throughs of applicable areas, and tests designed to evaluate the actions planned or taken. We determined through an assessment that the following areas are among the highest risk. They include:

- Local computer systems, including local area networks
- Integrated Data Retrieval System (IDRS)
- American Telephone & Telegraph (AT&T) and Purchase Bank credit cards
- Emergency salary payments
- Negative annual and sick leave balances
- Release of the final check(s)

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We reviewed the records of all 442 employees from eight districts who separated during the period January 1, through March 1, 1997. We did not identify any employee separations in our scope of review with outstanding emergency salary payments. Our review did not include tests for the return of properties, such as computer equipment.

We reviewed the records of 221 employees for the local computer systems test, comprised of approximately 30 employees from each of the eight districts. We reviewed all employees in those districts where there were less than 30 employees separating.

The detailed scope and objectives are included in Attachment I.

### Background

*An effective clearance process ensures government properties were returned, financial obligations were resolved, and computer system accesses were removed.*

The clearance process consists of steps employees and managers must take when employees retire, transfer, separate, or resign from the Service. The purpose of this process is to ensure government properties were returned, financial obligations were resolved, and computer system accesses were removed. Each region and the National Office is responsible for establishing a clearance procedure to ensure these steps are completed.

The individual(s) assigned to ensure the clearance process is implemented is called a designated agent. The final clearance determination and distribution of the final check(s) is dependent upon the results of this process review and decision of the designated agent.

*Use of Separating Employee Clearance Certificate, Form 5389, is mandatory by all offices.*

The Separating Employee Clearance Certificate, Form 5389, is mandatory for use in all offices during the separation process. The manager initiates this form and the designated agent routes the form to seven functional coordinators for certification. The designated agent performs a final review of the Form 5389 to ensure all certifications were completed.

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*Automating the separation process will not reflect the Service's organizational changes and will not include simultaneous routing.*

In an effort to assist the clearance process, the Office of the Chief, Management and Administration, plans to automate the separation process on a personnel system. However, these plans only automate the current Form 5389 and do not reflect the Service's organizational changes nor do they include simultaneous routing between coordinators.

### Results

*We found the controls over the clearance process did not sufficiently mitigate the Service's exposure to risk. Two regions have declared the clearance process a "significant control deficiency."*

We found the controls over the Separating Employee Clearance Process did not sufficiently mitigate the Service's exposure to risk from financial loss and access to or destruction of taxpayer information. Two regions have declared the clearance process a "significant control deficiency" as part of their fiscal year 1997 FMFIA process.

The Service will benefit from the early resolution of separating employees' financial debt and timely removal of computer capabilities. After an employee leaves the Service it becomes costly to establish accounts receivable with less likelihood of collection. In addition, the Service can prevent the opportunity of access to taxpayer data and use of credit cards by unscrupulous former employees. We identified the following areas needing management's immediate attention.

- Functional coordinators, including computer systems administrators, were not always notified or timely notified of employee separations.
- Designated agents could not always ensure separated employees liquidated financial obligations and returned properties before releasing the final check(s).



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**Functional coordinators, including computer systems administrators, were not always notified or timely notified of employee separations.**

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**Employees left the Service with access capabilities to computer systems containing taxpayer data.**

*Systems administrators were not notified or timely notified of employee separations to remove computer system access capabilities.*

Methods of preparing and routing Form 5389 did not ensure the separating employee's computer system accesses are timely removed. Local computer systems and IDRS administrators were not notified or timely notified of employee separations to remove computer system access capabilities.

Separating employees' managers should use the Automated Information System User Registration/Change Request, Form 5081, and Form 5389 to inform the various systems administrators when to remove computer capabilities. Generally, we found managers prepare Form 5081 to request the IDRS administrator remove system access capabilities of separated employees. Local computer systems administrators did not always receive or timely receive the Forms 5389 and 5081 for removal notification.

Service guidelines require employees' IDRS capabilities be removed within three working days from their date of separation. Although, there are no specific guidelines for establishing timely removal of separating employees' capabilities on local computer systems, some systems administrators have developed local criteria to remove access to their systems. Ideally, all employees' capabilities to access IDRS and local computer systems should be removed the day the employee separates.

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*Systems administrators have relied on secondary sources, such as the Personnel Focus Report, to identify separated employees.*

In some offices, computer systems administrators identify separating employees using a report generated by Personnel. This report is often referred to as the Focus Report. Although this report identifies separated employees, it is not available until at least ten days after employees separate.

The Service is at risk when former employees continue to have the ability to access or affect taxpayer information through local computer systems and IDRS. IDRS users are systemically locked after 17 calendar days and deleted after 60 calendar days. However, any misuse of the system will prevent the lockout and would extend the lockout an additional 17 calendar days. Some local computer systems also have controls established that will lockout a user after a designated period of non-usage.

*Twenty-one former employees did not have their local computer system capabilities removed.*

We reviewed 221 employee separations for local computer system capabilities. Twenty-one employees had access to local computer systems after their dates of separation. We did not identify any accesses to local computer systems after employees separated.

*Seventy-six former employees were not timely deleted from IDRS.*

We also reviewed 442 employee separations for IDRS capabilities. Seventy-six separated employees were not timely deleted from IDRS. Untimely deletion of IDRS user capabilities ranged from 4 to 43 calendar days (averaging 16 days). We identified one separated employee who attempted to conduct research on IDRS. The access attempt was unsuccessful because of an incomplete taxpayer identification number. This case is being researched and evaluated to determine if further investigation is warranted by Internal Security.

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### **Employees left the Service with active AT&T and Purchase Bank credit cards.**

Methods of preparing and routing of Form 5389 did not ensure AT&T and Purchase Bank credit cards of separating employees were canceled. AT&T and Purchase Bank credit card coordinators were not notified or timely notified of employee separations to initiate cancellation.

*Form 5389 does not provide a specific space to record all the types of credit cards, which may have contributed to 14 AT&T and nine Purchase Bank credit cards not being canceled.*

The coordinators are not always notified by the managers and/or Form 5389 to take cancellation action. Although the Form 5389 provides a space for credit cards, it does not provide spaces to record the specific types of cards that need to be canceled. These circumstances may have contributed to the non-cancellation of separated employees' credit cards.

We identified 14 active AT&T and nine active Purchase Bank credit cards of former employees. We did not identify any activity or purchases on these credit cards after the employees separated. The Service is at risk when unscrupulous former employees continue to have active AT&T and Purchase Bank credit cards. The Service would pay these credit card charges with little chance of collection from former employees.

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### **Designated agents could not always ensure separated employees liquidated financial obligations and returned properties before release of the final check(s).**

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Designated agents did not always ensure financial obligations were liquidated and Service properties were returned before releasing the final check(s) to separating employees. Also, in some cases the checks were not always available to the designated agent to hold or liquidate.

Service procedures allow designated agents to release separating employees' checks when all outstanding financial obligations are liquidated and properties are

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returned. Personnel will redirect the final check to the designated agent upon receipt of a separation action or request by the designated agent. The designated agent will contact Personnel to redirect the final checks to themselves when there are outstanding financial liabilities or unreturned properties. Designated agents should not hold final check(s) for unreturned identification badges and building keys, or until computer system capabilities are removed.

The routing of the Form 5389 through the seven functional coordinators caused delays in the certification process. Checks were not always available to the designated agent because the request for personnel action was not always timely received and processed to redirect the final check. When these actions are not timely completed, final checks will be mailed to the employees' home address or electronically deposited in their financial institution. In some instances, designated agents were not aware of the criteria for redirecting or liquidating the final checks.

Our review demonstrated that employees left the Service with unresolved negative leave balances and received their final checks. There were 36 of 442 employees that separated from the Service with outstanding negative leave balances. The Service took appropriate action for 19 employees to resolve the financial obligation by fully or partially liquidating the outstanding leave balances and establishing bills of collection. Seventeen of 36 employees received their final checks and had 1,806 hours of unresolved negative leave.

When the employees' final checks are not properly liquidated to resolve the employees' financial obligations or unreturned properties, the potential exists for these liabilities to remain unpaid.

*We identified 17 of 36 employees separating with 1,806 hours of unresolved negative leave.*

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### **Recommendation (1)**

The Chief, Management and Administration, should ensure Directors, Support Services, designate an employee in each office to be responsible for the clearance process. The designated employee should have access to a personnel system capable of receiving notification of separating employees. Generally, in most offices, this employee would be the designated agent.

- The Directors, Support Services, should develop additional procedures for the designated employees' responsibilities and provide instructions to managers and functional coordinators to help facilitate the timely completion of the clearance process.
- The manager should notify the designated employee of the separating employee's name, social security number, position, and date of separation. Each office needs to designate functional coordinators to assure they receive the notification of the separation.
- The designated employee will contact the functional coordinators providing them via electronic mail or facsimile with this information.
- Upon notification of employees separating, the functional coordinators will research for all financial obligations and Service properties and contact the designated employee with the results prior to the employee's separation date.
- If the designated employee has not received the information or received a negative report from the manager and/or the functional coordinators by the separation date, the designated employee should contact Personnel to verify that the check(s) is being redirected.

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Periodically, management should utilize the Focus Report, as a backup control, to review the effectiveness of the clearance process.

### **Recommendation (2)**

The Chief, Management and Administration, should coordinate with the Chief, Information Officer, the Chief, Compliance Officer, and the Chief, Financial Officer, to organize a re-engineering committee. Each office should designate a representative(s) for the committee to study the clearance process.

The committee should consider all available options, including “off-the-shelf” software packages that could be modified to reflect the Service’s organizational changes as well as the needs and responsibilities of each functional area. This would entail changes resulting in a new form design.

Management's Response: To improve the process in the short term, a module is being developed using TAPS (Totally Automated Personnel System), to automate the clearance process. This module should allow faster sign off and better control over the process. In the long term, The Chief, Management and Administration will conduct a formal reengineering project to reengineer the entire clearance process.

The Chief, Management and Administration will also issue instructions detailing the procedures to be followed and the need to designate an employee to be responsible for the clearance process.

Management's complete response is included in Attachment II.

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**Conclusion**

The purpose of the clearance process is to ensure that employees do not separate from the Service with financial indebtedness, accountable properties, and access to computer systems.

We found the controls over the Separating Employee Clearance Process did not sufficiently mitigate the Service's exposure to risk from financial loss. More significantly, the controls over the Clearance Process did not ensure safeguards are effective to prevent unauthorized access to or destruction of taxpayer data.

The Service should take corrective actions to address these issues and follow-up to assure these risks have been sufficiently mitigated. If the actions taken by the Service do not sufficiently mitigate the risk, the Service should report the Separating Employee Clearance Process as a "significant control deficiency" in their Annual Assurance Letter.



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Louis J. Tancabel  
Audit Manager

Audit Staff:

Scott Critchlow	Senior Internal Auditor
Louis Lee	Internal Auditor
Glory Jampetero	Internal Auditor
Kevin Shaw	Internal Auditor
Eulala Davis	Referencer
Joanola Rose	Referencer

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### **Attachment I**

#### **Detailed Scope and Objectives**

We determined if current controls over the clearance process would sufficiently limit the Service's exposure to risk from financial loss and access to or destruction of taxpayer information. To accomplish our objective, we conducted the following audit steps.

- A. We evaluated the actions planned or taken by Service management to ensure the effectiveness of internal controls over clearance procedures by performing the following tests.
- Interviewed appropriate National Office management officials to determine current procedures or planned actions to address the Service's upcoming downsizing efforts, and evaluated actions planned or taken related to the employee clearance process.
  - Interviewed appropriate local management in Resources Management Support Services (RMSS), Information Systems, Transactional Processing Centers, and the Controller's office, as well as Unit Security Representatives (USRs), designated agents, and related employees to determine and evaluate the current procedures used for separating employees.
  - Interviewed appropriate Federal Manager's Financial Integrity Act (FMFIA) coordinators in eight districts (Northern California, Pacific-Northwest, Georgia, Delaware-Maryland, North Texas, North Central, Pennsylvania, and Ohio), four regions (Northeast, Southeast, Midstates and Western), and National Office (obtained information only) to determine whether a self-assessment of internal controls over the clearance process was performed.
- B. We determined whether internal controls were adequate to mitigate the risk of employees separating with active passwords to Service computer systems, government credit cards, and /or financial obligations by conducting interviews, walk-throughs, and observations of the areas specified below. We also reviewed activities pertaining to 442 employee separations (unless otherwise specified) from January 1,



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through March 1, 1997 from a Treasury Integrated Management Information System (TIMIS) download. For each area, we assessed the Internal Revenue Manual and local procedures, analyzed controls and reasons for any weaknesses identified, the impact on Service assets and information and identified methods to improve the employee separation process.

**Accesses to Local Computer Systems**

- Randomly selected a sample of 221 separated employees to determine the status (active, locked, or not on system) of their access capabilities on local computer systems and/or local area networks.

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**Accesses to IDRS**

- Reviewed IDRS profiles of separated employees using command codes MRINQ and SFINQ to determine if the employees were removed from IDRS on a timely basis.
- Reviewed the following numbers of IDRS users to calculate the range and average work days users were not timely removed from the system.

<b>Districts</b>	<b>IDRS Users</b>	<b>No. of Separated Employees</b>
Northern California	44	70
Pacific-Northwest	60	72
Georgia	10	14
Delaware-Maryland	43	61
North Texas	34	47
North Central	33	53
Pennsylvania	56	66
Ohio	46	59

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- Reviewed IDRS audit trails to determine if separated employees accessed IDRS after their separation dates.

### **American Telephone & Telegraph (AT&T) Cards**

- Reviewed available AT&T cardholder reports to determine if any employees separated with active phone cards and verified with AT&T card coordinators cancellation procedures were initiated on any active cards discovered. We also determined if any activity was identified on these cards after the employee separation date by using FTS 2000 On-line Certification Usage System (FOCUS) reports.

### **Purchase Bank Cards**

- Reviewed vendor reports to determine if any employees separated with active bank cards and verified bank card coordinators initiated cancellation procedures on any active cards discovered. We also determined if there were any purchases made on active cards identified after the employee separation date by reviewing the monthly billing statements.

### **Emergency Salary Payments (ESPs)**

- Reviewed Report AR04, Outstanding ESP/Substitute Payment (SP), and AR07, Overdue ESP/SP, to determine if any employees separated without resolving their outstanding ESPs.

### **Negative Leave Balances**

- Reviewed the annual and sick leave balances from TIMIS to identify if employees have separated from the Service with outstanding negative leave balances.
- Obtained TIMIS Administrative Billings and Collections (ABCO) screen prints on separated employees with negative leave balances to determine if the outstanding

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balances were offset with the employees' final check(s).

### **Release of the Final Check**

- Reviewed Designated Agents' records and TIMIS ABCO screen prints to determine if separated employees received final checks. We determined the type of final check (salary, lump sum, and/or buyout) and methods funds were issued (direct deposit/electronic funds transfer, home mail, and/or through designated agent).
- Reviewed Forms 5389 to determine if the form had required certification signatures. We also determined the number of missing Forms 5389.
- Compared exceptions identified in the tests specified above and the Forms 5389 exceptions that contained missing certification signatures to determine where the control breakdowns occurred.
- Note: Release of the final check test was not performed in the Ohio District.

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Attachment II

Management Response



CHIEF MANAGEMENT  
AND ADMINISTRATION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

DEC 18 1997

MEMORANDUM FOR REGIONAL INSPECTOR  
WESTERN REGION

FROM:

David A. Mader   
Chief Management and Administration

SUBJECT:

Draft Internal Audit Report - "Assessment of Controls over the  
Employee Clearance Process"

We have analyzed the results of the subject draft report and provide for your information the following proposed corrective actions and completion dates.

**RECOMMENDATION 1:**

Ensure that the Directors, Support Services designate an employee in each office to be responsible for the clearance process and develop procedures and instructions for the designated employees, managers, and functional coordinators.

**ASSESSMENT OF CAUSE**

The clearance process is currently a manual process that involves sending the Form 5389 to various sites for sign off. This involves hand carrying or faxing the form to different locations and coordinating with all parties involved. In addition, the focal point for the clearance process appears to currently be the designated agent. The problem with this is that the designated agent is not located the same organizationally in each office, and the duties of the designated agent are not the same.

**CORRECTIVE ACTIONS**

To improve the process in the short term, a module is being developed using TAPS (Totally Automated Personnel System), to automate the clearance process. This module should allow faster sign off and better control over the process. In the long term, the entire clearance process will become the focus of a Reengineering effort. We will also be issuing instructions to the Directors, Support Services detailing the procedures to be followed and the need to designate an employee to be responsible for the process.

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REGIONAL INSPECTOR, WESTERN REGION

### **IMPLEMENTATION DATE**

With the exception of National Office, the TAPS module will be available servicewide by January 1, 1998. National Office will implement when it implements TAPS. This is currently scheduled for April 1, 1998. The instructions to the Directors, Support Services will be issued by February 1, 1998.

### **RESPONSIBLE OFFICIAL**

National Director, Personnel Division

### **RECOMMENDATION 2:**

Coordinate with the Chief Information Officer, the Chief Compliance Officer, and the Chief, Financial Officer to organize a Reengineering effort to reengineer the clearance process.

### **ASSESSMENT OF CAUSE**

The clearance process is currently a manual process that involves sending the Form 5389 to various sites for sign off. This involves hand carrying or faxing the form to different locations and coordinating with all parties involved. In addition, the focal point for the clearance process appears to currently be the designated agent. The problem with this is that the designated agent is not organizationally located the same in each office, and the duties of the designated agent are not the same.

### **CORRECTIVE ACTION**

A formal reengineering project will be established to reengineer the entire clearance process.

### **IMPLEMENTATION DATE**

The reengineering team will develop a project action plan by May 1, 1998.

### **RESPONSIBLE OFFICIAL**

National Director, Personnel Division

If you have any questions or concerns please contact me at 202-622-4700, or have a member of your staff contact Jim O'Malley, National Director of Personnel, at 202-874-4098.