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ABSTRACT

In this report the advantages and disadvantages of the experimental approach to the President's Commission on Executive Exchange Program are identified. The Executive Exchange Program Voluntary Services Act of 1986 added this experimental component to encourage higher level private sector executives to participate, since their salaries would be paid by their private sector employers rather than by the government. Telephone interviews were conducted with 40 private sector executives who participated in the program during FY 1988 and 1989, 30 of their corporate employers, and 24 of their government hosts. All parties had generally positive views of the experimental component. The Commission's conflict of interest procedures appeared to be adequate for experimental component executives. No disadvantages to the government were found. An inequity in the program was that private sector executives continued to receive most of their fringe benefits from their corporate employers, but federal participants were in a leave-without-pay status, and certain federal employee benefits were reduced or not available to them. The experimental component enabled higher salaried private sector executives to participate, resulted in savings to the government, and encouraged greater federal agency participation. (YLB)

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General Government Division

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March 31, 1989

The Honorable David Pryor
Chairman, Subcommittee on
Federal Services, Post Office and
Civil Service
Committee on Governmental Affairs
United States Senate

The Honorable Gerry Sikorski
Chairman, Subcommittee on Civil Service
Committee on Post Office and Civil Service
House of Representatives

As required by the Executive Exchange Program Voluntary Services Act of 1986 (Public Law 99-424), we are sending you our report on the implementation of the act. The report contains recommendations for the extension and expansion of the act's authority to permit more private sector executives assigned to government agencies in the President's Commission on Executive Exchange (PCEE) Program to be paid their full salaries by their corporate employers. In addition, the report contains recommendations to permit federal employees to continue receiving their benefits while they are participating in the program.

Because PCEE is currently recruiting participants for the fiscal year 1990 exchange program, it needs to know as soon as possible whether the experimental component, which expires on September 30, 1989, will be extended. Otherwise, its ability to make commitments to private sector executives could be delayed. Accordingly, Congress should act as soon as possible on our recommendations.

If you decide to act on our recommendations, we would be pleased to assist in developing the necessary legislation.

This report was prepared under the direction of Bernard L. Ungar, Director, Federal Human Resource Management Issues. Other major contributors are listed in appendix IV.

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Executive Summary

Purpose

Since 1970, the federal government and the private sector have voluntarily exchanged executives on a temporary basis through the President's Commission on Executive Exchange (PCEE) Program. Under the program, the private sector host companies pay the salaries of federal participants. Until 1986, the government paid the salary of all private sector participants, up to a certain dollar amount.

The Executive Exchange Program Voluntary Services Act of 1986 (Public Law 99-424) added an experimental component to the program for fiscal years 1987 through 1989 to encourage higher level private sector executives to participate. Under the component, salaries of up to 10 private sector participants each year are paid by their private sector employers rather than the government. The authorization for the experiment expires on September 30, 1989. This report responds to the act's requirement that GAO identify the advantages and disadvantages of the experimental approach and recommend whether the approach should be continued.

Background

The PCEE program and a Commission to administer it were created by executive order in 1969. Subsequent executive orders modified the program by elevating the level of private sector executives expected to participate. The Commission's Executive Director testified before the House Subcommittee on Civil Service that recruiting highly qualified executives from the private sector was becoming difficult, because the limitation on salaries paid to private sector executives during their federal assignments had become an increasing impediment. In consideration of the recruiting difficulties cited by the Executive Director, on September 30, 1986, Congress enacted Public Law 99-424.

Results in Brief

The experimental component has achieved its objective to facilitate the Commission's ability to recruit high level private sector executives. The experimental component has also resulted in other benefits. Views of private sector executives, their employers, and government hosts are generally positive toward the experimental component. GAO found the Commission's conflict of interest procedures appear to be adequate for experimental component executives and found no disadvantages of the experimental component to the government.

GAO noted, however, an inequity in the PCEE program. While private sector executives in the program continue to receive most of their fringe benefits from their corporate employers, federal participants are in a leave-without-pay status, and certain federal employee benefits are reduced or not available to them.

GAO's Analysis

Higher Level Private Sector Executives' Participation

GAO was told that the experimental component has enabled higher salaried private sector executives to participate in the program. The higher salaries suggest that higher level executives participated. During fiscal years 1988 and 1989, the average salaries for executives in the experimental component were $104,000 and $124,900, respectively, and ranged from $85,000 to $154,000. Salaries of private sector executives not in the experimental component averaged $65,100 and $71,800, respectively, and ranged from $46,900 to $87,800. (See pp. 16 and 17.)

Experimental Component Resulted in Savings to the Government

PCEE estimated and GAO confirmed that the experimental component will have resulted in savings to the government during fiscal years 1988 and 1989 of about $1.5 million. This represents the amount of salary costs of private sector participants if they had been paid by the government rather than by their corporate employers. (See p. 19.)

Greater Agency Participation

The Commission's Executive Director said many federal agencies would have been discouraged from participating in the exchange program if they had had to pay the private sector executives' salaries. GAO found examples in Commission files of how budgetary concerns apparently discouraged more federal agency participation, and some government hosts GAO interviewed confirmed that their agencies would not have participated in the PCEE program if government agencies had had to pay private sector executives' salaries. (See pp. 20 and 21.)

PCEE Controls Over Conflicts of Interest Appear Adequate

Congressional concern was previously expressed about possible conflicts of interest arising from allowing the private sector to pay the salaries of exchange program executives. GAO found, however, that overall, PCEE's requirements and procedures appeared adequate and were being followed. Also, corporations and government agencies appeared to be making reasonable and timely conflict of interest determinations. (See pp. 24 to 27.)

Federal Executives Should Receive Federal Employee Benefits

Federal executives on exchange assignments are in a leave-without-pay status. Thus, such benefits as retirement credit, within-grade increases, and Thrift Savings Plan contributions are reduced. The majority of federal employees GAO interviewed said the loss of these benefits was a disadvantage. Private sector executives in the program continue to receive most of their fringe benefits from their corporate employers. This inequity could be remedied by authorizing federal employees to be on "detail" rather than on leave without pay. The government could then continue to pay their salaries and benefits. The corporate hosts could reimburse the agencies for the salary costs. (See ch. 4.)

Recommendations

The experimental component authorized by Public Law 99-424 will expire on September 30, 1989, and the extension of the authority as soon as possible is vital to the Commission's ability to recruit for the fiscal year 1990 exchange program. GAO recommends that Congress extend the authority provided by Public Law 99-424 and expand it to permit more private sector executives assigned to government agencies in the PCEE program to be paid their full salaries by their corporate employers.

In addition, GAO also makes recommendations that will permit federal participants to continue to receive their federal employee benefits.

Alternatives for Future Consideration

GAO recognizes that if the authority authorized by Public Law 99-424 were expanded, the private sector may eventually pay the salaries of a substantial portion of all participants. This could happen if more highly paid private sector executives participate, as the program's objectives contemplate. This would result in a disproportionate distribution of salary costs to the private sector. Accordingly, GAO presents some alternative ways that the salaries and benefits of future participants could be handled.

Agency Comments

The Commission's Executive Director and officials of the Office of Personnel Management and the Office of Management and Budget generally agreed with GAO's findings and recommendations. The Executive Director said, however, that the extension of the authority provided by Public Law 99-424 should be given top priority to ensure the success of the fiscal year 1990 exchange program. She suggested that the matter of federal employee benefits be handled separately at a later date if it would delay extension of the authority.

Contents

Abbreviations

CSRS	Civil Service Retirement System
FAA	Federal Aviation Administration
FERS	Federal Employees' Retirement System
IPA	Intergovernmental Personnel Act
NAPA	National Academy of Public Administration
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PCEE	President's Commission on Executive Exchange
SES	Senior Executive Service

Introduction

Since 1970, the federal government and the private sector have voluntarily exchanged executives on a temporary basis through the President's Commission on Executive Exchange (PCEE) Program. The Executive Exchange Program Voluntary Services Act of 1986 (Public Law 99-424) added an experimental component to the program to encourage higher level private sector executives to participate. Under the component, salaries of up to 10 private sector participants each fiscal year can be paid by their private sector employers rather than the federal government. The government continues to pay the salaries of other private sector participants up to a certain dollar maximum, and the private sector host companies pay the salaries of federal participants. Authority for the experimental component expires on September 30, 1989, and the act requires us to recommend whether the experimental pay approach should continue and identify its advantages and disadvantages.

In April 1985, we provided PCEE's Executive Director with a report on the operation of the program.[1] We issued another report on the program in June 1985 to several members of the Senate Committee on Governmental Affairs that summarized the matters discussed in our report to the Executive Director.[2] In these reports, we noted that there were problems with the Commission's procedures to identify potential conflicts of interest and that the Commission did not do evaluations to determine whether the program's objectives were being met. The Commission has strengthened its conflict of interest procedures since our prior review, and it had the National Academy of Public Administration (NAPA) evaluate the exchange program to determine whether the program's objectives were being met. NAPA issued a report on its evaluation in December 1988.[3] The results of the evaluation are discussed in chapter 2.

Background

The PCEE program and a Commission to administer the program were created by President Johnson in 1969 by Executive Order 11451. The program was intended to promote federal government and private sector understanding and cooperation through the placement of "promising young executives" from the government and the private sector in positions offering challenge and responsibility in the other sector. President

[1]Overview of the President's Commission on Executive Exchange Program (GAO/GGD-85-50, April 30, 1985).

[2]Information on the President's Commission on Executive Exchange and the Congressional Assistant Program (GAO/GGD-85-60, June 18, 1985).

[3]The President's Commission on Executive Exchange: An Evaluation (December 1988).

Carter modified the program in 1979 by Executive Order 12136, which deleted the requirement that participants be young and extended the program to "promising executives . . . who have demonstrated the ability to rise to high management positions." Participants were to be placed in positions in the other sector "which offer significant challenge, responsibility, and regular and continuing contact with senior officials."

President Reagan said the PCEE Program "stimulates the introduction of new techniques and ideas which develop greater cooperation with the business world and improve management of government agencies." The President further modified the program in 1984 by Executive Order 12493, which required that private sector participants be "primarily those who have achieved senior level management positions, and also those exceptional managers who have unique qualifications and extremely high potential for policy making positions." Federal participants are required to be members of the Senior Executive Service (SES), or at the GS-15 or equivalent level.

Between 1970 and February 1989, 867 executives participated in the program: 561 from the private sector and 306 from the government. Seventy executives participated in the program during the 2 most recent fiscal years. During fiscal year 1988, 34 participated: 20 from the private sector and 14 from the government. In fiscal year 1989, 36 are participating: 23 from the private sector and 13 from the government. The private sector executives are assigned to a government agency generally for 1 year, and government executives spend 1 year in a private sector company. For certain assignments in foreign countries, such as an assignment in which the executive reports to an ambassador, private sector executives can extend for up to 1 additional year. And in extraordinary circumstances, such as at the request of a cabinet officer, other private sector executives can be extended for up to 90 days. (See app. I for a list of fiscal year 1989 exchange program assignments.)

The PCEE program is administered by Commission staff located in Washington, D.C. The Commission recruits executives for the program by soliciting nominations from corporations and federal agencies. Exchange program assignments generally begin around October 1 each year and continue through the end of the fiscal year. The Commission's recruiting efforts begin in January, when it invites private sector and government officials to nominate executives for the program. The Commission screens the nominations, selects executives to participate in the program, and arranges appropriate assignments for the executives in the opposite sector. The Commission also administers procedures to identify or detect actual or apparent conflict of interest situations involving executives' assignments. In addition, the Commission administers an educational program for the executives. During the assignment year, the federal and private sector executives have the opportunity to attend various seminars and conferences on current domestic and international issues. These sessions are intended to enrich the executives' total experience.

The program is funded through annual appropriations and through contributions from the private companies and the federal agencies that sponsor participants. About $626,000 was appropriated for fiscal year 1989. The private sector companies currently contribute $18,000 to the PCEE for each of their participants in the program. The government currently contributes $5,000 for each of its participants, supplemented by additional funds from participating private sector companies who serve as hosts to federal program participants.

During their assignments, the salaries of federal executives are paid by their private sector hosts and are based on the executives' projected government salaries, bonuses, and cost of living increases. The salaries of all private sector executives were, until 1986, paid by the federal agency hosts. The salaries were based on the compensation the executives would have earned with their companies, adjusted for anticipated bonuses and cost-of-living increases, and were limited to the SES salary ceiling. This ceiling is level IV of the Executive Schedule.

While in the program, private sector participants continue to receive most fringe benefits from their corporate employers. The corporate employers also pay relocation expenses. Federal participants are on leave without pay from the government. While they continue to receive certain federal benefits, other benefits are limited or not available to the participants during their assignments (see ch. 4). Relocation expenses are paid by the government.

The Executive Exchange Program Voluntary Services Act of 1986 (Public Law 99-424)

In October 1985, PCEE's Executive Director testified before the House Subcommittee on Civil Service, Committee on Post Office and Civil Service, that recruiting highly qualified executives from the private sector was becoming difficult. The Executive Director said that the limitation on salaries that may be paid to private sector executives during their federal assignments had become an increasing impediment to recruitment for the exchange program. She said that exceptionally qualified private sector executives with well-established records of achievement were often earning salaries that exceeded the federal maximum. The Executive Director said that participation in the program by executives earning above the maximum federal salary required the executives to make a significant economic sacrifice.

In consideration of the recruiting difficulties cited by PCEE's Executive Director, on September 30, 1986, Congress enacted Public Law 99-424, the Executive Exchange Program Voluntary Services Act of 1986. The act authorized the President to create an experimental component of the PCEE program, to operate from fiscal years 1987 through 1989, under which not more than 10 private sector executives could be paid their full salaries each year by their corporate employers while being assigned to federal agencies on a voluntary basis. Under the act, such individuals are subject to the same federal laws, rules, and regulations relating to conflicts of interest, financial disclosure, and standards of conduct as other federal employees. In addition to private sector executives in the experimental component, other private sector executives were still authorized under existing executive orders to be in the PCEE program with their salaries paid by the federal government up to the SES salary ceiling.

Of the 43 private sector executives participating in the exchange program during fiscal years 1988 and 1989,[4] 18 were in the experimental component and were paid their full salaries by their corporate employers; salaries of the other 25 were paid by the government up to the SES salary ceiling.[5] The ceiling was $77,500 in October 1987 and was raised to $80,700 in January 1989. In addition, 27 federal executives who were paid by their corporate hosts participated in the program during the 2 years.

Authority for the experimental component will, unless extended, expire on September 30, 1989. The law required us to report on the experimental component and to present our findings on the advantages and disadvantages of accepting voluntary services from exchange program participants and our recommendations for legislation relating to the experimental component's continuation.

[4]The experimental component went into effect on October 1, 1986. Because recruiting for program participants begins months in advance of the beginning of the fiscal year, only two private sector executives participated in the experimental component during fiscal year 1987. Thus, the experimental component did not become fully operational until fiscal year 1988.

[5]Two additional executives from the private sector were selected for the experimental component, but they withdrew. Only one of the two had started his assignment.

Objectives, Scope, and Methodology

In accordance with the requirements of Public Law 99-424, our primary objectives were to (1) assess the effects of the experimental component and identify its advantages and disadvantages and (2) develop recommendations on whether the approach should be continued. Because of previous congressional concern about possible conflicts of interest arising from allowing the private sector companies to pay the salaries of their executives who participate in the program, an additional objective of this review was to determine whether PCEE controls provided reasonable assurance to prevent or detect conflict of interest situations for experimental component executives.

Another objective was to evaluate how federal employee fringe benefits are handled for federal executives participating in the program.

To accomplish our objectives, we reviewed applicable laws, executive orders, Office of Personnel Management (OPM) policies, PCEE policies, and literature on the PCEE program. We interviewed PCEE officials to obtain information on how the exchange program was administered and on how the experimental component was working. PCEE did not document whether the experimental component was facilitating the recruitment of private sector executives. Therefore, we discussed this matter with persons who were involved with and knowledgeable about the PCEE program to obtain information on whether the experimental component facilitated recruitment.

We interviewed by telephone 40 of 43 private sector executives who participated in the program during fiscal years 1988 and 1989, 30 of their corporate employers, and 24 of their government hosts to obtain their views on the experimental component. Some of the employers sponsored more than one executive, and some of the government agencies hosted more than one private sector executive. Accordingly, the number of employers and government hosts interviewed was lower than the number of private sector executives. We interviewed 25 of 27 federal executives who participated during the 2 years to obtain their views on how their federal benefits were handled while they were in the program. Although we attempted to interview all executives, employers, and government hosts associated with the program, others were not interviewed because we were unable to reach them. (See app. II for details on our interview methodology.)

We also reviewed PCEE files for all 70 executives in the fiscal year 1988 and 1989 exchange programs to determine whether corporate and agency conflict of interest determinations had been made in accordance with PCEE procedures. In addition, we reviewed federal agency position descriptions and executives' biographical information and corporate and agency conflict of interest determinations for the 10 private sector executives in the fiscal year 1989 experimental component, since the assignments were still in progress at the time of our review. We made this review to obtain an indication as to whether, on the basis of that limited information, the conflict of interest determinations made for each executive by their employers and government hosts appeared reasonable. We also asked all of the private sector executives, employers, and government hosts we interviewed their perceptions about the potential for actual or apparent conflict of interest situations for experimental component executives and about the extent to which PCEE procedures would preclude an actual or apparent conflict of interest for those executives.

We also reviewed a December 1988 report on the exchange program prepared by NAPA.

We did our work from September 1988 to February 1989, primarily at PCEE headquarters in Washington, D.C., in accordance with generally accepted government auditing standards. The views of PCEE officials were obtained during the course of our work and are incorporated where appropriate. PCEE's Executive Director reviewed a draft of this report and agreed with the information presented and with our findings and recommendations. Also, officials of OPM and the Office of Management and Budget (OMB) reviewed a draft of this report and generally agreed with our findings and recommendations.

Benefits of the Experimental Component Authorized by Public Law 99-424

The experimental component authorized by Public Law 99-424 has been beneficial to the PCEE program. The experimental program has produced the following benefits:

- encouraged participation in the exchange program of higher level private sector executives,
- resulted in savings to the government, and
- encouraged greater participation by federal agencies.

Overall, we did not identify any disadvantages of the experimental component. While some persons associated with the exchange program expressed concern about certain aspects of the experimental component, they were in the minority. Some expressed concern about the potential for an actual or apparent conflict of interest for experimental component executives or the extent to which PCEE procedures would preclude an actual or apparent conflict of interest for these executives. We also noted that a few private sector participants who were not in the experimental component thought it was unfair that they had to take pay cuts while their private sector peers in the experimental component continued to receive full pay from their corporate employers.

Our review showed, however, that PCEE's controls to prevent or detect conflict of interest situations appear to be adequate for private sector executives in the experimental component. (See ch. 3.) Also, we believe the authority to allow private sector program participants to be paid their full salaries by their employers should be extended and expanded to permit more than 10 executives a year to receive their full salaries from their corporate employers.

In cases when corporate employers agree to do so, this would eliminate the apparent inequity created by the experimental component, in which 10 private sector executives are authorized to receive their full salary during their exchange assignment while others may have to take a reduction in salary. (See ch. 5.)

Higher Level Private Sector Executives' Participation

A requirement of the PCEE program is that private sector participants should be those who have achieved senior level management positions with their employers, and the experimental component was added to encourage higher level private sector executives to participate. PCEE officials said they believed that during fiscal years 1988 and 1989, the experimental component has been successful in enabling the Commission to recruit high-level executives from the private sector to serve in government. NAPA, in its report, also noted that the experimental component has resulted in providing the Commission with the ability to attract relatively highly paid corporate executives.

We did not evaluate the qualifications and backgrounds of participating private sector executives covered under the experimental component, except to compare them with agency position descriptions as part of our review of PCEE's conflict of interest procedures. (See ch. 3.) However, we found that the salaries paid to private sector executives in the experimental component were considerably higher than the salaries paid to other private sector executives in the exchange program. The higher salaries suggest that higher level executives participated in the program under the experimental component. Also, as discussed below, most of the executives who participated in the experimental component said they would not have agreed to participate if they had not been paid their full salaries.

According to PCEE records, during fiscal years 1988 and 1989, the average corporate salaries for executives in the experimental component, for whom salary information was available, were $104,000 and $124,900, respectively. Salaries ranged from $85,000 to $154,000 during the 2 years. These salaries also included bonuses, if applicable. During the same period, corporate salaries for private sector executives who were not in the experimental component, and whose salaries were paid by the government up to the SES salary ceiling, averaged $65,100 in fiscal year 1988 and $71,800 in fiscal year 1989. They ranged from $46,900 to $87,800 during the 2 years.

Also, during the 2 years, out of the total of 25 private sector executives not covered by the experimental component, 8 took pay cuts ranging from $1,548 to $10,244. The other 17 executives did not take pay cuts. Salary cuts for 2 of the 8 executives exceeded $10,000.

We interviewed by telephone private sector executives who participated in the PCEE program during fiscal years 1988 and 1989, their corporate employers, and government host officials to obtain their views on the experimental component. (Our interview methodology is discussed in app. II.)

Of the 17 experimental component executives with whom we spoke, 16 said that they would have experienced a reduction in their salary if they had not been part of the experimental component. One executive said he would not have experienced a salary cut. As previously noted, however, all executives' combined salaries and bonuses exceeded the SES salary ceiling. In the case of this one individual, his base salary exclusive of other benefits came under the SES ceiling.

Eleven of the 16 said they would not have agreed to participate in the program if their pay had been limited to the ceiling, and 3 said they probably would not have agreed to participate. One said he was not sure whether he would have agreed to participate. Another said he probably would have participated even if his salary had been limited to the ceiling. All 16 executives said that agreeing to a pay cut would have resulted in a personal hardship. Fifteen of them said the hardship would have been great or very great. One said the hardship would have been moderate.

Private sector program participants said authorizing all corporate participants to be paid their full salaries by their employers (in cases where their employers would agree to do so) would encourage future private sector executives to join the program. This position was expressed by 15 of the 16 executives in the experimental component, who said they would have experienced a pay cut if they were not in the experimental program. The 23 executives not in the experimental component also shared this view.

The 13 employers of private sector executives in the experimental component all said if the experimental authority had not been available, recruiting executives for the exchange program would have been a problem. Five of these employers said that participants from their companies probably would not have agreed to participate if they had had to take a pay reduction, and 3 said that participants from their companies definitely would not have participated.

Seven of the 13 employers said if more of their executives could have been authorized to participate in the experimental component, their companies would have been willing or probably would have been willing to sponsor more participants. Also, these seven employers said the benefits to the companies of sponsoring executives in the experimental component outweighed the costs. Five said their companies would not have been willing or probably would not have been willing. One said he was not sure.

Twelve of the 17 employers of private sector executives not in the experimental component said that if the authority were available for more than 10 participants to be paid their full salaries by their company employers, recruiting executives for the program would be facilitated. Also, 12 of the employers said their companies would be willing or probably would be willing to pay more participating executives their full salaries if they were authorized to do so. Seven of these 12 employers said that if they were to pay full salaries to more of their executives, they believed the benefits to their companies would outweigh the costs. Three said their companies probably would not be willing to pay the executives their full salaries. Two said they were not sure.

The Experimental Program Resulted in Savings to the Government

PCEE estimated that the experimental program will save the government about $1.5 million during fiscal years 1988 and 1989 as a result of private sector participants being paid by their corporate employers. PCEE said that a major benefit of continuing with the authority provided by the experimental component and removing the 10-slot limitation would be to enable federal agencies to reap the benefits of having access to a greater number of highly qualified senior-level executives without the attendant salary costs so critical in today's budget environment. PCEE cited several examples of how experimental component executives are providing assistance to the government, without the related salary costs. For example, one senior-level corporate executive is now working with the Ambassador of Hungary to promote direct investments and trade with Hungary and other Eastern European countries.

NAPA, in its report, also cited the availability of about $1.5 million in executive "brain power" provided to the government at no cost.

While we could find no documentation in PCEE files to support how it calculated the estimated savings, we corroborated this amount. This is the approximate amount that the government would have paid in salaries to the private sector executives if the government, rather than the corporations, had had to pay the executives for a full year.

Although the government still paid for the salaries of executives not in the experimental component, up to the SES salary ceiling, the salary costs saved for executives in the component represent a savings to the government.

The Experimental Program Allows Greater Agency Participation

According to PCEE's Executive Director, "many" federal agencies would not have been able to participate in the exchange program because of budgetary constraints were it not for the experimental component. The Executive Director said that this information was based generally on her recollections of telephone conversations with federal agency officials. While PCEE documentation was limited, of the 11 government hosts of participants in the experimental component we spoke with, 3 told us their agencies would not have participated in the program if the agencies had had to pay the salaries of the corporate executives included in the component. Salaries of executives under the component were paid by their corporate employers. We noted, however, that one of these agencies sponsored a private sector executive not in the experimental component. The agency paid the salary of this executive up to the SES salary ceiling. Two others said their agencies probably would not have agreed to participate.

In addition, our review of PCEE records provided examples of how budgetary concerns apparently precluded more federal agency involvement in the program. The following examples relate to the fiscal year 1989 exchange program.

- "We cannot offer the candidate a position. We simply lack the budget to support an extra slot." (Department of Commerce)
- "I have no slots to hire anybody, and I don't think very many people in the FAA will be hiring anyone between now and the time a new Administrator comes in." (Federal Aviation Administration)
- "At the present time we are attempting to 'balance the budget' for FY 89 and do not feel we have the resources available for an Executive Exchange Program Participant." (Export-Import Bank of the United States)

Government hosts of private sector participants in the experimental component indicated that federal participation in the exchange program would have been more limited if the agencies had had to pay the salaries of corporate executives. Of the 11 officials we spoke to, 1 said his agency would still have participated if the agency had had to pay the executive, and 4 said their agencies probably would have participated. As noted above, however, three said they would not have participated and two said they probably would not have participated. One said he was not sure about his agency's participation.

The government hosts also said if the authority had been available for more corporate participants to be paid their full salaries by their corporate employers, rather than by the government, they would have been willing to accept more participants. This view was expressed by 2 of the 11 officials hosting private sector executives in the experimental component. In addition, five others said they probably would have been willing to accept more participants. Also 2 of the 13 officials hosting executives not in the experimental component said they would definitely have been willing to accept more participants, and 7 said they probably would have been willing to accept more.

Private Sector Executives, Their Employers, and Government Hosts Endorse Experimental Component

Most private sector executives, their employers, and government hosts we spoke to believed that the authority provided by the experimental component should continue and that the number of possible participants should be expanded to more than 10. Their views are summarized in table 2.1.

Table 2.1: Views of Interviewees on What Should Be Done With the Experimental Component

Group	Continue in its present form	Continue and expand	Other	Number interviewed
Private sector executives in experimental component	0	16	1	17
Private sector executives not in experimental component	3	19	1	23
Employers of private sector executives in experimental component	1	10	2	13
Employers of private sector executives not in experimental component	6	6	5	17
Government hosts of private sector executives in experimental component	1	10	0	11
Government hosts of private sector executives not in experimental component	2	10	1	13
Total	**13**	**71**	**10**	**94**

Eight of the 10 respondents in the "other" column believed that the program should be changed. Four said the government should pay the salaries of the private sector participants up to the SES ceiling and the private sector companies should pay the executives any additional salary over the SES ceiling. Two said the private sector participation fee of $18,000 should be eliminated. One said the private sector and government employers should each pay their executives their full salaries. One said if the authority provided by Public Law 99-424 were expanded, the expansion should be limited to scientists and engineers. The remaining two of the "other" respondents said the experimental component should be discontinued. One said the PCEE program was costly for the government and the government could obtain needed help from other sources. The other said it created the appearance of a conflict of interest.

Some of the changes proposed are discussed as alternatives for handling salaries and benefits in the future (see ch. 5). Concerning the view that the experimental component is costly to the government, the PCEE program operates with about $626,000 in appropriated funds, and the government pays the salaries of executives not in the experimental component up to the SES salary ceiling. However, the government has saved about $1.5 million in fiscal years 1988 and 1989 as a result of not having to pay salary costs for executives in the experimental component. Regarding the concern expressed about the appearance of a conflict of interest, as discussed in chapter 3, we believe Commission procedures provide reasonable assurance that conflict of interest situations will be prevented or detected.

Impact of Experimental Component on Government Employees and Executives Not in the Component

We asked some of the interviewees about their views on the impact of the experimental component on (1) government employees working with the experimental component executives and (2) private sector executives not in the experimental component.

Eight of the 16 executives in the experimental component who said they would have experienced a pay cut if they were not in the component said that their federal host working associates knew they were earning more than the SES salary ceiling. The others said either that this was not known by their associates or it was uncertain whether this were known. All of the eight said they were not aware of any complaints of unfairness by federal employees that private sector participants earned more than federal employees. Of the 11 government hosts of experimental component executives we spoke to, 2 said that the salaries of the experimental component executives were known by government working associates. Both of these individuals also said that they were not aware of any expression of unfairness about the amount of the executives' salaries.

Of the 23 private sector executives we spoke to who were not in the experimental component, 6 said they were experiencing a pay cut (excluding bonuses) as a result of being limited in salary to the SES salary ceiling. Three of the six interviewees said the pay cut resulted in a personal hardship. Also, three of the six taking a pay cut said it was unfair that some of their private sector peers in the program continued to receive full pay from their corporate employers while they experienced a reduction. All six of those taking a pay cut, however, said the potential benefits of the PCEE program made up for the reduction.

We agree that it is unfair that some private sector executives in the program receive their full pay while others must experience a pay cut. We believe, however, that the continuation of the authority provided by Public Law 99-424 and the expansion to include more private sector executives a year would eliminate this inequity in cases where corporate employers agree to pay the executives their full salaries.

PCEE Controls Help Prevent and Detect Conflict of Interest Situations for Experimental Component Executives

During hearings held before the enactment of Public Law 99-424, Congress expressed concern about possible conflicts of interest arising from allowing the private sector to pay the salaries of executives who participate in the exchange program. For executives in the experimental component, we found the following:

- Legal requirements and PCEE procedures were in place to preclude conflict of interest situations.
- Overall, the requirements and procedures appeared reasonable and were being followed and the participating corporations and government agencies were making required conflict of interest determinations in a timely manner.
- Conflict of interest determinations and assignment placement of executives by the Commission appeared reasonable.

Some of the private sector executives, their employers, and government hosts expressed concern about potential conflicts of interest for experimental component executives. Some also expressed concern about the ability of PCEE procedures to preclude an actual or apparent conflict of interest for these executives. However, the majority of interviewees expressing an opinion said that there was little or no potential for an actual or apparent conflict situation. Also, the majority of the interviewees expressing an opinion believed that PCEE's procedures would preclude an actual or apparent conflict of interest situation from a great to a very great extent.

Private Sector Participants Must Meet Federal Requirements

Participating corporate executives must adhere to federal conflict of interest laws, financial reporting requirements, and standards of ethical conduct that apply to federal officers and employees. Also, the agency to which a corporate executive is assigned is not permitted to extend an offer of permanent employment to the executive during the assignment, or for at least 1 year following completion of the assignment. Each executive is to be provided with a summary of applicable conflict of interest laws, including post-employment restrictions on employment with the opposite sector; financial reporting requirements; and Executive Order 11222, which concerns standards of ethical conduct for government officers and employees. Each executive must acknowledge receipt of the documents and an understanding of the requirements.

PCEE procedures require the host federal agency to prepare a proposed position description for each corporate executive. PCEE officials and corporate and agency legal staff review the position description and the executive's resume to ensure that there is no real or apparent conflict of interest. Each private sector executive is required to complete a financial disclosure report, which agency ethics officials review as part of the formal conflict of interest certification procedure. The sponsoring corporation and the host agency formally certify in writing that there is no conflict of interest. These certifications are sent to PCEE, where officials review them before an executive begins an assignment. These procedures are repeated during the year if warranted by significant changes in the original assignment.

PCEE Requirements to Prevent or Detect Conflict of Interest Situations Are Generally Met

Overall, Commission controls and procedures to prevent and detect conflicts of interest appeared reasonable and were being followed. With few exceptions, conflict of interest determinations were being made in a timely manner.

We reviewed compliance with the Commission's conflict of interest requirements for all exchange program participants during fiscal years 1988 and 1989. We did this to ascertain the adequacy of the administration of controls for all participants in the program. Our review of Commission files for all 70 exchange program participants in the 2 years showed that for the fiscal year 1989 program, the 36 required conflict of interest determinations were made by the participants' sponsors before the start of the executives' assignments. Thirty-five of the required host determinations were also made before the assignments started. We could not determine the timeliness of one of the host determinations because it was undated.

The Commission received all determinations for the fiscal year 1988 program, except for five that were late, before the executives' assignments began. The sponsors made 31 out of 34 required determinations before assignments began. Three were made and received by PCEE after the executives' assignments began. The determinations were dated 1 day, 18 days, and 33 days after the start of the executives' assignments. Two of the three cases involved executives in the experimental component. Also, two of the host determinations involving one private sector executive not in the experimental component and one federal executive were made and received after the executives' assignments began. The determinations were dated 1 day and 5 days after the start of the executives' assignments. PCEE officials could not explain why these five determinations were not made prior to the assignments' starting dates.

Commission Involvement in Arranging Executives' Assignments

An important way for the Commission to prevent an actual or apparent conflict of interest is to be involved in arranging assignments for exchange program executives. As discussed in chapter 1, when placing executives from the private sector with government host agencies, the Commission solicits nominations from corporations, selects executives to participate, and arranges appropriate assignments for the executives with the government. As part of this process, the Commission has the corporations and federal agencies review the proposed assignments before they begin to preclude a potential conflict of interest.

The following examples illustrate the Commission's concern over conflicts of interest. In one case, the Commission's Executive Director's involvement resulted in the withdrawal of a private sector employee being considered for an agency exchange assignment as part of the fiscal year 1988 experimental program. The Executive Director perceived that the private sector sponsor was attempting to negotiate the terms of a proposed exchange assignment. In a letter to the company's Chairman and Chief Executive Officer, the Executive Director said PCEE had a firm policy against allowing private sector sponsors to negotiate the terms of potential exchange assignments. She noted that a primary consideration of any assignment is the avoidance of real or apparent conflicts of interest.

In another case involving a private sector employee being considered for an agency assignment in the fiscal year 1989 program, the executive's employer wrote to the Commission's Executive Director regarding certain areas in which the executive should not be assigned in the federal agency. The company advised excusing the executive from the assignment to avert the possibility of an actual or apparent conflict of interest if his duties could affect the company's activities.

The employer went on to say that the executive understood that if he believed his participation in a project could cause a conflict of interest, he would inform his supervisors. In addition to notifying PCEE of its concern, the company also sent a copy of its letter to the government host agency.

Commission officials said that if a company brings a matter such as this to the Commission's attention, the Commission generally discusses the situation with the executive to caution the executive as to his or her responsibilities in the matter. We suggested to PCEE's Executive Director that it would strengthen PCEE's controls to routinely forward such matters to the responsible official in the opposite sector for information and action. The Executive Director agreed to implement this control.

Examination of Fiscal Year 1989 Experimental Component Assignments

To test PCEE's controls, we reviewed the 10 executives' position descriptions and biographical information. This allowed us to determine whether the company and agency conflict of interest determinations were made and the Commission's assignment placement appeared reasonable. We did not use the executives' financial disclosure reports as part of our review because PCEE does not review and maintain them. PCEE provides them to the host agencies for review. On the basis of our examination of the documents available in PCEE files, we found that the company and host determinations and PCEE's assignment placement appeared reasonable. We limited this phase of our review to the fiscal year 1989 experimental component, since these assignments were still in progress at the time of our review. Also, in the event that we noted anything that appeared to be a problem, we would have been able to bring the matter to the Commission's attention for possible action.

Perceptions of the Potential for and Controls Over Conflict of Interest Situations for Experimental Component Executives

Some private sector executives, corporate employers, and government hosts expressed concern about the potential for an actual or apparent conflict of interest situation for experimental component executives. Some also expressed concern about the ability of PCEE procedures to preclude such situations. For example, 9 of 90 of those respondents expressing an opinion said that there was a great or very great potential for an apparent conflict of interest for experimental component executives. Also, 9 of 83 respondents expressing an opinion said that PCEE procedures would preclude an actual conflict of interest to little or no extent.

On the other hand, most interviewees expressing an opinion said that there was little potential for an actual or apparent conflict of interest. Further, most interviewees expressing an opinion believed that PCEE procedures would preclude an actual or apparent conflict of interest from a great to a very great extent. Tables 3.1 through 3.4 present the results of our interviews with participating private sector executives, their employers, and their government host agencies on conflicts of interest.

Table 3.1: Perceptions of Interviewees on the Potential for an Actual Conflict of Interest for Experimental Component Executives

Group	Number responding: Great to very great extent	Some to moderate extent	Little or no extent	No opinion	Total
Private sector executives in experimental component	0	0	17	0	17
Private sector executives not in experimental component	1	6	16	0	23
Employers of private sector executives in experimental component	0	2	11	0	13
Employers of private sector executives not in experimental component	1	2	12	2	17
Government hosts of private sector executives in experimental component	0	4	5	2	11
Government hosts of private sector executives not in experimental component	1	2	10	0	13
Total	**3**	**16**	**71**	**4**	**94**

Table 3.2: Perceptions of Interviewees on the Potential for an Apparent Conflict of Interest for Experimental Component Executives

Group	Number responding: Great to very great extent	Some to moderate extent	Little or no extent	No opinion	Total
Private sector executives in experimental component	0	3	14	0	17
Private sector executives not in experimental component	2	10	11	0	23
Employers of private sector executives in experimental component	0	3	10	0	13
Employers of private sector executives not in experimental component	2	5	8	2	17
Government hosts of private sector executives in experimental component	2	4	3	2	11
Government hosts of private sector executives not in experimental component	3	7	3	0	13
Total	**9**	**32**	**49**	**4**	**94**

Table 3.3: Perceptions of Interviewees on Extent to Which PCEE Procedures Would Preclude an Actual Conflict of Interest for Experimental Component Executives

	Number responding				
Group	Great to very great extent	Some to moderate extent	Little or no extent	No opinion	Total
Private sector executives in experimental component	16	1	0	0	17
Private sector executives not in experimental component	21	2	0	0	23
Employers of private sector executives in experimental component	13	0	0	0	13
Employers of private sector executives not in experimental component	7	1	7	2	17
Government hosts of private sector executives in experimental component	6	1	1	3	11
Government hosts of private sector executives not in experimental component	6	0	1	6	13
Total	**69**	**5**	**9**	**11**	**94**

Table 3.4: Perceptions of Interviewees on Extent to Which PCEE Procedures Would Preclude an Apparent Conflict of Interest for Experimental Component Executives

	Number responding				
Group	Great to very great extent	Some to moderate extent	Little or no extent	No opinion	Total
Private sector executives in experimental component	16	0	0	1	17
Private sector executives not in experimental component	20	2	0	1	23
Employers of private sector executives in experimental component	13	0	0	0	13
Employers of private sector executives not in experimental component	6	3	6	2	17
Government hosts of private sector executives in experimental component	5	1	1	4	11
Government hosts of private sector executives not in experimental component	7	0	0	6	13
Total	**67**	**6**	**7**	**14**	**94**

Federal Program Participants Should Continue to Receive Their Federal Employee Fringe Benefits

Although the primary focus of our review was directed towards the implementation of Public Law 99-424, we also looked at the treatment of employee fringe benefits for federal executives participating in the PCEE program. Federal exchange program executives are carried in a leave-without-pay status by their federal agencies. As a result, certain federal employee benefits are unavailable or are only partially available to them during their assignments to the private sector. On the other hand, according to Commission procedures, private sector executives in the program continue to receive most of their fringe benefits from their corporate employers.

The loss or reduction of fringe benefits is a disadvantage for federal PCEE program participants and many of them have expressed concern to us about this situation. As a matter of equity, we believe that federal executives should remain in federal pay status during their PCEE assignment. This could be accomplished by "detailing" them to their private sector hosts, which would enable them to continue to receive their normal federal benefits. The government would pay the executives' salaries while they were on detail. However, the corporate host could reimburse the sponsoring government agency for an executive's salary cost. This would require new legislative authority, because such use of details and the receipt of reimbursement for executives' salaries from private sector corporations is not now authorized.

Employee Fringe Benefits for Federal Exchange Program Executives

Federal employees on leave without pay receive some employee fringe benefits, such as health and life insurance benefits. Other benefits, however, are unavailable or may be reduced. The manner in which these benefits are affected is described in the following sections.

Health and Life Insurance Benefits

Employees with health benefits coverage and group life insurance coverage can continue to receive these benefits while on leave without pay. While on an exchange assignment, the executive's enrollment in the Federal Employees Health Benefit Program can be continued for up to 365 days. The executive does, however, continue to pay his or her normal or regular share of the coverage. If federal program participants have federal employees' group life insurance coverage while working for the government, it continues for up to 12 months after federal pay is discontinued. The federal program participant does not contribute his or her share of the payment for life insurance coverage while on leave without pay from the government.

Annual and Sick Leave Benefits

Federal executives in the exchange program do not earn federal annual (vacation) or sick leave while working in the private sector. The Commission urges executives to take any vacation leave provided by the companies immediately before returning to their government agencies. According to PCEE officials, participating federal executives are encouraged to minimize their use of vacation leave at other times during their assignments to maximize their availability to their corporate hosts.

The loss of the accrual of annual leave can result in a significant financial loss to a federal employee upon separation from government service. Federal employees with 15 or more years of service accrue 26 days of annual leave a year. Federal employees are entitled to receive a lump-sum cash payment for all accrued annual leave to their credit upon separation from federal service. Generally, employees can only carry a maximum of 30 days of accrued annual leave over into a succeeding leave year. Balances above 30 days at the end of a leave year are usually forfeited. However, annual leave accrued by SES members is not subject to this limitation. Adding to this carryover the 26 days that an employee with 15 years or more of service could earn over the course of the leave year, the employee could be eligible for a lump-sum cash payment of up to 56 days of accumulated annual leave (or more, if in the SES). The payment for the leave is to be equal to the value of the leave at the time the employee leaves the federal service. The payment would be based on the employee's salary level at the time of separation. However, the maximum annual leave accrual that could be lost by federal participants is 26 days. For example, an SES member at the lowest current salary level of $68,700 could receive a lump-sum payment of $6,847 for 26 days of accumulated annual leave.

Also, the loss of the accrual of sick leave for 1 year may affect the computation of retirement annuities for federal employees in the Civil Service Retirement System (CSRS). It would also affect the amount of leave available to federal employees in case of a subsequent illness. Employees retiring on an immediate annuity under CSRS receive service credit for any unused sick leave they may have at the time of retirement. Federal employees earn 13 days of sick leave a year. This service credit could, when added to service credit for time worked, result in higher annuities for CSRS employees over the course of their lives after retirement, and it may also affect the annuities of their survivors. Depending on the amount of sick leave an employee has accrued by the time he or she retires, the addition of another 13 days could possibly result in an annuity increase.

Retirement Benefits

According to law (5 U.S.C. § 8332(f) and 8411(d)), while individuals are on leave without pay, service credit for computing retirement benefits is given for up to 6 months in any calendar year. Consequently, a year's leave of absence beginning July 1 and ending June 30 the following year would be fully credited toward retirement, since the span covers 6 months in each of 2 calendar years. However, if the leave-without-pay status begins on October 1, the first day of the fiscal year, as many assignments currently do, and terminates on September 30, the last day of the fiscal year, only 9 months of service would be credited. While they are on leave without pay, federal employees do not make contributions to the federal retirement program in which they are enrolled. Their pay while on their exchange assignment is, however, subject to withholding for Social Security taxes. This may or may not provide future benefits to the employee. If an employee has no other, or insufficient, Social Security covered employment during his or her career, the employee would be ineligible for Social Security retirement benefits.

Thrift Savings Plan Benefits

Federal exchange program executives are ineligible to participate in the government's Thrift Savings Plan. Under the plan, eligible employees in the CSRS may contribute up to 5 percent of their basic pay to the plan, which offers them savings and tax benefits. Employees covered under the Federal Employees Retirement System (FERS) may contribute up to 10 percent of their basic pay to the plan. Employees covered by FERS who contribute to the Thrift Savings Plan are also eligible for a government matching contribution of up to 5 percent of their basic pay. Even if an employee under FERS does not contribute to the Thrift Savings Plan, the government contributes an amount equal to 1 percent to the employee's Thrift Savings Plan. This benefit is lost to employees on leave without pay.

Within-Grade Increases

Any federal exchange program employee paid under the General Schedule who is eligible for a within-grade increase (a salary increase based on satisfactory performance and completion of a scheduled "waiting period" of from 52 weeks to 156 weeks) will have the waiting period for the increase extended because he or she is in a leave-without-pay status.[1] Only a small part of their year exchange assignment counts towards completion of the waiting period for the increase. Employees in steps 2, 3, and 4 receive credit for 2 work weeks for their 1-year assignments. Those in steps 5, 6, and 7 receive 4 weeks' credit for the year assignment. Those in steps 8, 9, and 10 receive 6 weeks' credit for the year. This may result in delaying a within-grade increase from 10-1/2 to 11-1/2 months.

The following example shows the financial impact of this limitation for a GS-15 federal exchange executive who had just received a within-grade raise to GS-15, step 2, on September 30, the day before beginning his or her PCEE assignment. Normally, the employee would be eligible to receive step 3 after 52 weeks. After the end of the PCEE assignment, however, the executive's salary would be 3 percent lower than if the executive had not participated in the exchange program and had remained with his or her agency and performed in a satisfactory manner. This 3 percent represents the amount of the next within-grade raise. For the entire year's exchange assignment, the executive could only receive 2 weeks' credit towards the within-grade increase to step 3. Not only would the executive's salary be 3 percent lower following the assignment, the salary would be affected in following years because the salary would continue to be at a lower GS step unless the executive is promoted into the SES or reaches step 10 of his or her pay grade. In effect, the employee would remain almost 1 year behind for purposes of subsequent within-grade increases.

Federal Executives Expressed Concern Over Loss or Reduction of Employee Fringe Benefits

We interviewed 25 of the 27 federal executives who participated in the exchange program during fiscal years 1988 and 1989 to obtain their views on (1) the way federal employee benefits are handled during exchange assignments and (2) whether the Commission adequately explained to them the treatment of federal benefits.

Twenty-two of the executives said that the Commission adequately explained the impact of participating in the program on their federal benefits before the executives started their assignments. As shown in table 4.1, the executives did express concern about the loss or reduction of various benefits, which they viewed as a disadvantage.

[1] SES members and employees covered by the Performance Management and Recognition System established under 5 U.S.C. § 5401 et. seq. are ineligible for within-grade increases.

Even though they agreed to participate in the PCEE program, the majority of executives interviewed considered the loss of full-time credit towards retirement, the delay in receiving a within-grade raise, the inability to contribute to the Thrift Savings Plan, and the loss of annual leave and sick leave accrual as disadvantages.

Table 4.1: Number of Federal Executives Who Believed the Loss of Various Federal Benefits Was a Disadvantage

Benefits loss	Number responding	Total interviewed
Full-time credit toward retirement	23	25
Timely within-grade increase	12	18[a]
Ability to contribute to Thrift Savings Plan[b]	20	25
Annual leave accrual	18	25
Sick leave accrual	17	25

[a]Not all of the 25 interviewees commented on the delay of within-grade increases. Some of them were ineligible for within-grade increases because they were SES members or were covered under the Performance Management and Recognition System. We did not obtain a breakdown of the numbers in these groups.

[b]Twenty of the 25 executives interviewed said that during the time they participated in the exchange program, they would have contributed to the Thrift Savings Plan if they had been permitted to do so.

Two of the federal sector interviewees were covered under FERS. Both of them viewed the loss of the government matching contribution to the Thrift Savings Plan as a very great disadvantage. Seventeen of the 25 federal employees interviewed said that they thought provisions should be made to enable federal employees to receive their normal federal employee benefits during the course of their exchange program assignments. Twenty-one said that they thought that enabling federal employees to receive their normal federal employee benefits would encourage federal executives to participate in the exchange program in the future.

Remedy to Allow Federal Exchange Program Executives to Receive Federal Employee Fringe Benefits

Federal exchange program executives could continue to receive all federal employee benefits that they were receiving immediately prior to the start of their exchange program assignments if they were to remain in federal pay status during their assignments. This would occur if, instead of placing the executives in a leave-without-pay status, the executives' sponsoring agencies could "detail" the executives to their private sector hosts and continue to pay their salaries. Corporate hosts could reimburse the agencies for salary costs. Salary costs to the private sector would be no greater than now, since the firms presently pay federal executives their salaries during their assignments. Depending on the extent to which private sector companies may currently provide the federal participants with employee fringe benefits, their costs would be reduced, since the companies would no longer have to provide benefits.

We have not attempted to compute the additional benefit costs to the government because of numerous uncertainties, including amounts of government and employee thrift contributions, future retirement dates and previous and future contributions for individual employees, annual and sick leave accruals and balances, and eligibility for and amounts of within-grade increases. These costs, however, would be insignificant if the participation level for federal executives in the exchange program continues as in the past. Since the inception of the program in 1970, an average of only about 16 federal employees have participated in the program each year.

Continuing federal participants' benefits would be consistent with the way benefits of participating private sector executives in the experimental component are treated. Section 3(e)(1) of Public Law 99-424 states that "[n]othing in this Act shall prevent—(A) the continuation of pay and other benefits from the private sector employer, or (B) continued participation in a bona fide pension, retirement, group life, health or accident insurance, profit-sharing, stock bonus, or other employee welfare or benefit plan maintained by the private-sector employer."

Detailing federal executives to the exchange program would be similar to federal agencies' assignment of employees under the program created by the Intergovernmental Personnel Act (IPA) (5 U.S.C. § 3371-3376 (1982)). Under that act, federal government employees may be assigned on detail or leave without pay to state or local governments, institutions of higher education, Indian tribal governments, and other eligible organizations. The majority of participants on IPA assignments from fiscal years 1984 to 1988 have generally been assigned to the program on detail. When employees are assigned on detail, the individuals remain as federal employees and thus continue to receive their regular salaries, fringe benefits, and other entitlements while they are on IPA assignments. The government may be reimbursed for an employee's pay while he or she is on an IPA assignment, depending on the arrangements negotiated with the host organization. (Federal Personnel Manual, ch. 334, sec. 1-5a.)

This remedy could be achieved by authorizing, in legislation governing the exchange program, the detailing of federal employees to the private sector and requiring the sponsoring corporations to reimburse the government for the executives' salaries. This would obviate the necessity to amend the relevant statutes in titles 5 and 18 of the United States Code to exempt the federal participants in the exchange program from certain statutory requirements.[2]

If a blanket exemption to existing statutes were to be incorporated into legislation governing the exchange program, it would be necessary to specifically list those statutes or regulations that should continue to apply to the program. For example, all applicable statutes regarding compensation, benefits, travel and relocation, conflict of interest, standards of ethical conduct for government officers and employees, and post-employment restrictions for exchange executives, and authority for agencies to accept reimbursements for executives' salaries from private sector companies should be included. The applicable statutes could be listed and incorporated by reference into the exchange program statute.

[2]These statutory requirements include 5 U.S.C. § 5535, extra pay for details prohibited; 5 U.S.C. § 5536, extra pay for extra services prohibited, unless specifically authorized by law; and 18 U.S.C. § 209, statutory prohibition against federal officials and employees receiving salary or contributions from other than the United States.

Conclusions, Recommendations, and Alternatives for Future Consideration

Conclusions

The authority provided by Public Law 99-424 has been beneficial to the PCEE program. The experimental component has encouraged higher salaried executives to participate in the program, consistent with the law's objective, and it has resulted in savings to the government. These findings are generally consistent with those cited by the Commission and also cited in a recent NAPA report. The experimental component also has encouraged greater participation by federal agencies.

Private sector executives, their corporate employers, and their government hosts generally believe that the experimental program has been beneficial. The vast majority of those we interviewed believe the experimental component authority should be expanded to allow more than 10 private sector executives to be paid by their corporate employers. PCEE officials share this view.

Some persons associated with the exchange program expressed concern about the potential for an actual or apparent conflict of interest for experimental component executives. Some also expressed concern about the ability of PCEE's procedures to preclude conflict of interest situations for those individuals. We believe, however, that PCEE's controls to prevent or detect conflict of interest situations appear to be adequate for experimental component executives. Additionally, some private sector executives not in the experimental component thought it was unfair that they had to take pay cuts to be in the PCEE program while experimental program executives continued to receive full pay. We agree and believe this situation should and can be remedied.

Accordingly, as long as controls over conflicts of interest remain adequate and effective, we believe the experimental authority should be extended and expanded to permit more than 10 executives a year to receive their full salaries. These changes would allow PCEE greater flexibility in its recruiting efforts to obtain increased participation of higher level private sector executives, increased benefits to the government including savings, and greater federal agency involvement in the program.

Federal executives in the program expressed some dissatisfaction about the loss of federal fringe benefits. We believe that federal executives should continue to receive their employee benefits. This could be done by detailing the executives to private sector hosts. Their details could be similar to details covered by the Intergovernmental Personnel Act.

The firm to which the executive was assigned could reimburse the government for the employee's salary. Such costs are currently paid by the private sector firm during a federal executive's assignment.

The government should absorb the cost of participating federal executives' benefits, as do the private sector firms for their executives who participate in the PCEE program. We do not believe these costs to the government would be significant because of the small number of federal employees involved in the program each year.

Because the Commission begins its recruiting efforts well before the exchange program starts, it needs to know as soon as possible whether the experimental program, which expires on September 30, 1989, will be extended. Otherwise, its ability to make commitments to private sector executives for the fiscal year 1990 exchange program could be delayed. Also, the reduction in salary to some private sector executives and the loss of benefits to government executives could discourage their participation and is, in our view, unfair to the individuals involved. Thus, we believe that prompt legislative action is needed to extend and expand the experimental program authority and prevent the loss of benefits to government employees who participate. These actions will allow the Commission and potential participants to know in a timely manner what commitments can be made during the recruiting period.

Recommendations to Congress

We recommend that Congress take the following actions:

- Extend the authority provided by Public Law 99-424 to permit private sector executives assigned to government agencies in the PCEE program to be paid their full salaries by their corporate employers.
- Expand the authority to permit more corporate executives to be paid their full salaries by their corporate employers.
- Authorize federal executives assigned to private sector companies, as part of the PCEE program, to be placed on detail to the private sector during the exchange assignment. This would allow executives to remain in federal pay status and continue to receive all benefits which, as federal employees, they would normally be entitled to receive.
- Authorize the corporate host companies to reimburse the sponsoring federal agencies for the executives' salaries.
- Include in legislation authorizing this authority a statement that it is enacted "notwithstanding any other law" in order to preclude the need to amend any other existing statutes that may be relevant to the PCEE

program and for which exemptions for federal participants may be necessary.

- Include in legislation authorizing this authority an enumeration of those statutes that should continue to apply to the PCEE program, such as applicable statutes relating to compensation, benefits, travel and relocation, conflict of interest, standards of ethical conduct for government officers and employees, post-employment restrictions for exchange executives, and authority for agencies to accept reimbursements for executives' salaries from private sector companies. The applicable statutes should be listed and incorporated by reference into the PCEE program statute.

Possible Alternatives for Handling Salaries and Benefits in the Future

Congress should act as soon as possible on our recommendations so the Commission can recruit participants for the fiscal year 1990 exchange program. In the future, however, it may wish to consider alternatives for the overall structure of the exchange program as it relates to the payment of participants' salaries. This is because the private sector, over the longer term, may end up paying for the salaries of a substantial portion of all participants. The private sector may be paying for additional private sector executives plus all participating government employees.

If Congress believes this would result in a disproportionate distribution of salary costs to the private sector, and views this as inappropriate, it has a number of alternatives to consider. Although we did not fully evaluate this issue or the alternatives available, we did identify three possible alternatives for future congressional consideration. It should be noted that the cost to the government could increase or the "savings" could be reduced to the extent that the government pays additional salary costs. We identified the following alternatives:

- Authorize both the private sector and the government to pay the full salaries and benefits for all executives they sponsor in the exchange program. This would be the easiest option to administer.
- Authorize the private sector and the government to negotiate, on a case-by-case basis, how salary and benefits are to be handled for each executive. This would be similar to the discretionary authority available for handling costs for participants in IPA assignments, where arrangements for paying such costs as pay and benefits are negotiated between the participating agencies and organizations.
- Authorize both the private sector and government to pay the benefits costs of the executives they sponsor. The government could initially pay

the salaries of its executives and subsequently be reimbursed for these costs by the private sector hosts (as recommended above). In addition, authorize the government to pay the salaries of all participating private sector executives up to the SES ceiling. The sponsoring corporations could pay the additional costs of those executives whose salaries exceed the SES ceiling.

As noted in chapter 2, several persons we interviewed cited private sector handling of the differential salary costs above the SES ceiling as an option. We understand, however, that the Commission and Congress previously considered this approach but did not act on it. Reasons cited included the difficulty in administering such an arrangement and the possible adverse cash flow situation it could create for private sector executives who may have to wait until the end of their assignments to receive the differential salary payment from their employers.

Agency Comments

We provided a draft of this report to the PCEE for comment. The Commission's Executive Director provided us with her oral comments. In addition, we provided the draft report to officials of OPM and OMB to obtain their comments. These officials provided their informal views to us orally. The Commission's Executive Director and the OPM and OMB officials agreed with our findings and recommendations.

The Commission's Executive Director said she agreed that the authority provided by Public Law 99-424 should be extended and expanded to include more than 10 private sector executives a year. She said these revisions should be given prompt consideration, since they would provide the Commission with the flexibility needed to ensure meeting the program's goal of recruiting senior-level private sector executives for exchange program assignments.

The Commission's Executive Director also agreed on the desirability of providing for the protection of federal employee benefits and placing federal employees on a parity with their private sector peers. To the extent that the remedy for maintaining federal employee benefits would not delay the extension of the authority, she said she would have no objections to its inclusion. Otherwise, she suggested the matter of federal employee benefits be handled separately, at a later date.

We agree with the Executive Director that the issue of extending and expanding the authority provided by Public Law 99-424 requires immediate consideration. While we believe that the resolution of the issue of federal employee benefits could be handled concurrently, we do not object to this matter being handled at a later date if it would delay the extension and expansion of the authority needed for recruiting senior-level executives from the private sector for the fiscal year 1990 exchange program.

Fiscal Year 1989 President's Commission on Executive Exchange Program Assignments in Progress as of March 1989

Executive	Employer	Title	Government host	Title
Private sector executives not in experimental component				
1	Fluor Corp.	Senior Vice President, Government Sector	Dept. of Defense	Special Asst. to the Director, Strategic Defense Initiative Organization
2	Xerox Corp.	Manager, Federal Marketing	Dept. of Defense	Asst. to the Asst. Secretary of Defense for Production and Logistics
3	Warner-Lambert Co.	Counsel, Parke-Davis Group	Dept. of Justice	Special Asst. to the Attorney General
4	Monsanto Agricultural Co.	Director, Product Registration and Regulatory Affairs	Dept. of Agriculture	Asst. to the Asst. Secretary, Marketing and Inspection Services
5	Minnesota Mining and Manufacturing Co.	Director, Innovation Resources	Dept. of Defense	Director, Countermeasures Strategy
6	Federal National Mortgage Association	Vice President, Mortgage Operations-Customer Service and Support	Office of Management and Budget	Special Asst. to the Associate Director for Management
7	International Business Machines Corp.	Director of Asset Management & Control	Dept. of State	Asst. to the Ambassador to Hungary
8	Johnson & Johnson Co	Director of Manufacturing	Office of the U.S. Trade Representative	Special Asst. to the U.S. Trade Representative
9	McDonnell Douglas Corp	Director, New Production Proposal Management	Central Intelligence Agency	Special Asst. to the Director, of Development and Engineering
10	McDonnell Douglas Corp.	Program Manager, New Business	International Trade Administration (Dept. of Commerce)	Asst. to the Asst. Secretary for Trade Development
Private sector executives not in experimental component				
11	McDonnell Douglas Corp.	Program Manager, Partners Advancing to New Horizons	Federal Aviation Administration	Special Asst. to the Director, Management and Control Service
12	Ameritech	District Manager, Economic Development	Small Business Administration	Asst. to the Associate Administrator, Finance and Investment
13	Texaco, Inc	Manager of Environmental Research Service	Dept. of Agriculture	Special Asst. to the Administrator, Agriculture Stabilization and Conservation
14	Bell Atlantic Co	Director, Rates and Demand	General Accounting Office	Special Asst. to the Asst. Comptroller General for National Security and International Affairs
15	Rockwell International Corp	Manager, Aerodynamics and Technology Development Budget	Dept. of Health and Human Services	Special Asst. to the Asst. Secretary for Management and Budget
16	American Telephone and Telegraph Co.	District Manager-Financial and Policies Analysis	Board of Governors of the Federal Reserve System	Economist
17	Johnson & Johnson Co	Director, Quality Assurance	Dept. of Health and Human Services	Special Asst. to the Asst. Secretary for Personnel Administration

(continued)

Executive	Employer	Title	Government host	Title
18	Northrop Corp.	Program Acquisition Manager	International Trade Administration (Dept. of Commerce)	Special Asst. to the Director General, U.S. and Foreign Commercial Service
19	USX Corp.	Comptroller, USX Engineers and Consultants, Inc.	Internal Revenue Service	Special Asst. to the Asst. Commissioner, Planning, Finance and Research
20	International Business Machines Corp.	Manager of Corporate Information Services	National Aeronautics and Space Administration	Special Asst. to the Director of Planning
21	Bell Atlantic Co.	Director, Cost of Capital	Dept. of Commerce	Special Asst. to the Director, Commercial Space Flight Office
22	Rust International Corp.	Director, Aerospace, Government and Defense Programs	Dept. of Defense	Special Asst. to the Deputy Under Secretary for Production Base and International Programs
23	United Technologies Research Center	Senior Consulting Scientist	National Aeronautics and Space Administration	Industrial Research Scientist
Federal sector executives				
24	General Services Administration	Deputy Commissioner Federal Property Resources Service	Eastman Kodak, Co.	Director, Strategy Development/ Analysis/ Quantification
25	Central Intelligence Agency	Liaison Officer, Office of Communications	McDonnell Douglas Corp.	Manager of Strategic Information, Missile, and Defense Electronics Division
26	Dept. of the Navy	Director, Electronics Division	Motorola Co.	Special Asst. to the Vice President and Corporate Director, Research and Development
27	General Accounting Office	Asst. Regional Manager for Operations	United Parcel Service	Management, Development, and Training Manager
28	Dept. of Energy	Director, Office of ADP Management	Minnesota Mining and Manufacturing Co.	Director, Information Systems Strategic Planning
29	Dept. of Defense	Deputy Chief, Office of Strategic Planning	American Telephone and Telegraph Co.	Director, Strategic and Market Planning
30	Dept. of the Navy	Deputy Counsel, Navy Supply Systems Command	Pacific Bell	Special Asst. to the General Counsel
31	Dept. of the Army	Associate Director, Industrial Science and Technology	International Business Machines Corp.	Program Manager, Development Process and Innovation
32	Office of Management and Budget	Budget Examiner, Energy and Science Division	Goldman, Sachs and Co.	Senior Global Finance Associate
33	Dept. of State	Counselor for Political Affairs, American Embassy, Panama	Unocal Corp.	Consultant, Business Development, International Oil and Gas Division
34	Internal Revenue Service	Asst. Director Research Division	Ameritech Applied Technologies, Inc.	Senior Executive Advisor to the President
35	National Security Agency	Executive Manager	Intel Corp.	Asst. to the Director of Corporate Information Services for Strategic Planning

(continued)

Executive	Employer	Title	Government host	Title
36	Environmental Protection Agency	Director, Program Management and Support Division	Syntex Corp.	Special Asst. to the Director, Environmental Health and Safety

Methodology for Telephone Interviews

We attempted to interview by telephone all of the private sector executives who participated in the PCEE program during fiscal years 1988 and 1989 to obtain their views on the experimental component authorized by Public Law 99-424. We also attempted to interview their corporate employers and government hosts to obtain their views on the experimental component. In addition, we attempted to interview all federal sector executives who participated in the program during the same period to obtain their views on the handling of federal benefits for federal exchange executives.

We tailored separate data collection instruments for each of the seven groups we interviewed. To standardize our data collection and analysis, we generally asked close-ended questions. All instruments were pretested.

Table II.1 shows the total number of interviewees in each group whom we attempted to reach and the total number reached. We made at least three attempts on different days during January and February 1989 to contact each person.

Table II.1: Interviews Attempted and Completed

Interviewees	Number attempted	Number completed	Percentage completed
Private sector executives in experimental component	18	17	94
Private sector executives not in experimental component	25	23	92
Employers of private sector executives in experimental component	14	13	93
Employers of private sector executives not in experimental component	17	17	100
Government hosts of private sector executives in experimental component	11	11	100
Government hosts of private sector executives not in experimental component	13	13	100
Government executives	27	25	93
Total	**125**	**119**	**95**

As shown in table II.1, we had an overall response rate of 95 percent. We were unable to reach six of the interviewees. The number of corporate employers and government hosts whom we attempted to contact was lower than the total number of private sector executives because some of the employers sponsored more than one executive, and some of the government agencies hosted more than one executive.

The data obtained were automated and data entry was verified. Responses obtained were computer analyzed, and the resulting tabulations were verified for accuracy..

Public Law 99-424

Public Law 99-424
99th Congress

An Act

Sept. 30, 1986
[H.R. 3002]

To provide for the establishment of an experimental program relating to the acceptance of voluntary services from participants in an executive exchange program of the Government.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Executive Exchange Program Voluntary Services Act of 1986
5 USC 4103 note

SECTION 1. SHORT TITLE.

This Act may be cited as the "Executive Exchange Program Voluntary Services Act of 1986".

5 USC 4103 note.

SEC. 2. DEFINITIONS.

For the purposes of this Act—

(1) the term "Government" means the Government of the United States;

(2) the term "participant in an executive exchange program" means an executive, manager, or other individual from the private sector participating in an executive exchange program administered by the President's Commission on Executive Exchange (described in Executive Order 12493, dated December 5, 1984) or by a successor entity in function;

5 USC 4103 note

(3) the term "agency" means an Executive agency (as defined by section 105 of title 5, United States Code), the United States Postal Service, and the Postal Rate Commission; and

(4) the term "employee of the Government" means an individual employed in or under an agency.

5 USC 4103 note.

SEC. 3. EXPERIMENTAL PROGRAM.

President of U.S.

(a) The President may establish an experimental program, to be conducted during fiscal years 1987 through 1989, under which voluntary services may be accepted by the Government, without regard to section 1342 of title 31, United States Code.

(b) Under the program, the voluntary services of an individual may be accepted if—

(1) such individual is a participant in an executive exchange program;

(2) the acceptance of such services will not result in the displacement of any employee of the Government; and

(3) the voluntary services will be performed in or under an agency.

(c)(1) An individual performing voluntary services under the experimental program shall, for purposes of any laws, rules, and regulations of the United States (including those relating to conflicts of interest, financial disclosure, and standards of conduct) be considered an individual employed in or under the agency to which assigned, except that such individual shall not be covered by chapter 51, 53, 63, 83, 87, or 89 of title 5, United States Code, or any comparable provision relating to pay, leave, retirement, life insurance, or health benefits for employees of the Government.

5 USC 5101 *et seq.*, 5301 *et seq.*, 6301 *et seq.*, 8301 *et seq.*, 8701 *et seq.*, 8901 *et seq.*

(d) Not more than ten individuals may commence participation in the experimental program during any fiscal year.

(e)(1) Nothing in this Act shall prevent—

(A) the continuation of pay and other benefits from the private-sector employer, or

(B) continued participation in a bona fide pension, retirement, group life, health or accident insurance, profit-sharing, stock bonus, or other employee welfare or benefit plan maintained by the private-sector employer,

for an individual performing voluntary services in the experimental program.

(2) For the purpose of this section, the term "private-sector employer", as used with respect to an individual, means the corporation or other person by which such individual was employed immediately before beginning to perform voluntary services in the experimental program.

SEC. 4. REPORTS. 5 USC 4103 note

Not later than March 31, 1989, the General Accounting Office shall transmit to the Congress a report on the experimental program under this Act. The report shall include a description of the administration of the program, the findings of the General Accounting Office relating to the advantages and disadvantages of accepting voluntary services from participants in an executive exchange program, and recommendations for legislation (if any) relating to the continuation of the program.

Approved September 30, 1986.

LEGISLATIVE HISTORY—H.R. 3002:

HOUSE REPORTS: No. 99-505 (Comm. on Post Office and Civil Service).
SENATE REPORTS: No. 99-409 (Comm. on Governmental Affairs)
CONGRESSIONAL RECORD, Vol. 132 (1986):
Apr. 8, considered and passed House.
Sept. 11, considered and passed Senate, amended.
Sept. 16, House concurred in Senate amendment.

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