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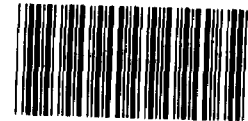
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GENERAL GOVERNMENT
DIVISION

B-181013

APRIL 30, 1985

The Honorable June G. Walker
Executive Director
President's Commission on
Executive Exchange



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Dear Mrs. Walker:

Subject: Overview of the President's Commission on
Executive Exchange Program (GAO/GGD-85-50)

At the request of several members of the Senate Committee on Governmental Affairs, we reviewed the President's Commission on Executive Exchange (PCEE) program. Our review disclosed weaknesses in the Commission's conflict of interest policies and procedures which the requestors suggested we bring to your attention. In addition, we noted that the Commission is not evaluating the program to determine whether program objectives are being met or that participants are meeting contractual requirements regarding employment restrictions after completing the program. On January 30, 1985, and again on March 19, 1985, we met with you and your deputy to discuss our conclusions and recommendations and you agreed to take corrective actions. The details on our conclusions and recommendations and the corrective actions you proposed are discussed in the following sections.

BACKGROUND

The PCEE program was 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 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

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"which offer significant challenge, responsibility, and regular and continuing contact with senior officials." The program was further modified by President Reagan 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 policymaking positions." Federal participants are now required to be members of the Senior Executive Service (SES), or an equivalent level. President Reagan, in a statement about PCEE, said it "stimulates the introduction of new techniques and ideas which develop greater cooperation with the business world and improve management of government agencies."

Under the program, private sector executives are nominated by their employers to spend 1 year in a government agency. Conversely, government executives are nominated by their agencies to spend 1 year in a private company. The program includes various seminars and conferences which are designed to inform the executives of current domestic and international issues. These sessions are intended to enrich the executive's total experience. The program starts in September of each year.

The program is funded through annual appropriations and through contributions from the private companies and the federal agencies which sponsor participants. About \$465,000 was appropriated during 1984. The salaries of private sector executives are paid by the federal government and are based on the compensation the executive would have earned with his/her company, adjusted for anticipated merit and cost-of-living increases. However, the salary cannot exceed the SES ceiling, which is currently \$72,300. The salaries of federal executives are paid by their private sector hosts and are based on the executive's projected government salary. PCEE officials advised us that, since the inception of the program in 1969, 749 executives had participated in the program--493 from the private sector and 256 from the federal sector.

OBJECTIVES, SCOPE, AND METHODOLOGY

Based on the request and subsequent discussions with the Committee staff, our objective was to determine the adequacy of PCEE's conflict of interest procedures and controls and of its system for evaluating program results.

To accomplish this, we reviewed applicable laws, Executive Orders, Office of Personnel Management (OPM) program evaluation policies, PCEE policies, literature on the PCEE program, and PCEE files for the 41 participants in the 1983 to 1984 exchange program and for the 37 participants in the 1984 to 1985 program. We interviewed PCEE officials and reviewed brochures to

obtain information on program objectives, policies, and procedures. We also interviewed officials of OPM's Office of Government Ethics, which provides overall direction on preventing conflicts of interest, to discuss conflict of interest procedures and controls as they related to the PCEE program. We reviewed minutes and transcripts of PCEE meetings held from September 1980 to May 1984 and a consultant's report on the PCEE program prepared in 1980. We analyzed PCEE's process for identifying conflicts of interest and reviewed documentation regarding executives' assignments to test the process, to see whether potential conflicts of interest were identified, and to see how they were resolved. We conducted our work at PCEE from December 1984 to January 1985. Our review was performed in accordance with generally accepted government auditing standards.

CONFLICT OF INTEREST DETERMINATIONS

All participating executives are subject to federal conflict of interest laws. They are also subject to financial disclosure requirements and standards of ethical conduct for government employees. PCEE's Executive Director is responsible for establishing an inventory of assignments with organizations which are interested in hosting an executive. You told us that you screen all of the potential assignments and eliminate those which in your judgment could lead to a conflict of interest situation.

PCEE officials told us that it is their policy to furnish each executive with (1) a summary of conflict of interest laws, (2) financial reporting requirements, and (3) Executive Order 11222 on standards of ethical conduct. The receipt of these documents must be acknowledged in writing. We noted that executives were being furnished information regarding their conflict of interest responsibilities and they acknowledged the receipt of this information in writing, usually before accepting a position with the host agency or company.

PCEE officials told us that it is also their policy to request a three-party review of each executive's assignment. Upon placement, each private sector executive's assignment with the government must be reviewed and approved in writing prior to the start of the assignment by the host government agency's ethics officer. Once this review is completed, the Office of Government Ethics and the sponsoring company are asked concurrently to review and approve the assignment in writing.

For federal executives, the sponsoring agency's ethics officer is asked to screen a list of proposed private sector hosts prior to the executive's placement to eliminate any companies from consideration which could present a possible conflict of interest. The proposed assignment is also to be

reviewed and approved in writing prior to the start of the assignment by the host company. Once this review is completed, the Office of Government Ethics and the sponsoring agency's ethics officer are asked to review and approve the assignment.

The review by the Office of Government Ethics for private sector and federal executives is based on the written determination of the host organization, the executive's biographical summary, the proposed assignment's position description, and the executive's financial disclosure report (for private sector executives).

Our review of PCEE files for participants in the exchange program for the 1983 to 1984 and the 1984 to 1985 program years showed that the written conflict of interest determinations of the host organization, the Office of Government Ethics, and the sponsoring organization were frequently not completed before the executives began their assignments and, in many cases, had not been completed at the time we finished our review in January 1985. Our review also showed that PCEE was not always requesting the conflict of interest reviews from the Office of Government Ethics and the sponsoring organizations as quickly as they could have requested these reviews. The following table summarizes our review of documentation on conflict of interest determinations for program years 1983 to 1984 and 1984 to 1985.

Conflict of Interest Reviews

	<u>Host</u>		<u>Office of Government Ethics</u>		<u>Sponsor</u>	
	<u>Requested</u>	<u>Completed</u>	<u>Requested</u>	<u>Completed</u>	<u>Requested</u>	<u>Completed</u>
1983 to 1984 Program (41 participants)						
By beginning of assignment	41	20	0	0	0	0
After beginning of assignment	0	21	39	39	0	0
No evidence on file	0	0	2	2	41 ^a	41 ^a
1984 to 1985 Program (37 participants)						
By beginning of assignment	37	25	0	0	1	0
After beginning of assignment	0	12	19	0	33	18
No evidence on file	0	0	18	37	3	19

^aA PCEE official told us that, for the 1983 to 1984 program year, the sponsors' reviews were not requested. The official said that this requirement was not implemented until the 1984 to 1985 program year.

As shown above, the host organizations' reviews for both program years had all been made, but often not until after the executives' assignments had begun. On the average, the delayed reviews were completed 2 months after the start of the assignments. Moreover, none of the reviews by the Office of Government Ethics or the sponsoring organizations had been completed by the beginning of the assignments. In some cases, it is not evident from the files that these reviews had been made at all. Although PCEE had requested all of the host organizations' reviews by the beginning of the executives' assignments, PCEE, with one exception, had not requested reviews by the Office of Government Ethics and the sponsoring organizations by the beginning of the assignments. Also, PCEE had not requested some of these reviews after the assignments began. During the 1983 to 1984 program year, the reviews made by the Office of Government Ethics were completed about 6 months after the start of the assignments. None of the Office of Government Ethics reviews for the 1984 to 1985 program year had been completed at the time of our review.

A PCEE official told us that the written determinations from the host government agencies (for private sector executives) are often delayed because the executives have not filed financial disclosure reports by the time they start their assignments. According to the Ethics in Government Act of 1978 (Public Law 95-521), executives have up to 30 days after beginning an assignment to file these reports. The PCEE official said that some of the agencies' ethics officers will not conduct their conflict of interest reviews until the financial disclosure reports have been completed. Others may perform a preliminary review before obtaining the reports. This, in turn, causes a delay in the review by the Office of Government Ethics because its review is based on an evaluation of what the host organization reviews, as well as the host's report. This also causes a delay in the review by the sponsoring organization, which usually conducts its review at the same time as the Office of Government Ethics.

While the delay in the receipt of the financial disclosure report may contribute to delays in all of the conflict of interest reviews for private sector executives, this should not have affected the conflict of interest reviews for federal executives. The host companies' determinations are not based on a review of financial disclosure reports filed by these executives. However, we noted little difference in the timeliness of PCEE's requests for conflict of interest reviews and the completion of the reviews by either private companies or federal agencies.

An official of the Office of Government Ethics told us that the Office is considering terminating its review of partici-

pants' assignments for future PCEE programs. The official said that the Office's reviews are not required by law and that reviews by PCEE and the host organization should be sufficient because they are most familiar with the job the executive came from and his/her 1-year assignment. We discussed this matter with PCEE officials and they acknowledged that the Office of Government Ethics had advised them that its review possibly could be discontinued after the current program year. They said, however, they believed that this review should be continued to help assure that no potential conflicts of interest exist.

Regardless of what the Office of Government Ethics decides, timely reviews by the host and sponsoring organizations are important. Our analysis of executives' files showed that the agency ethics officer reviews often identified potential conflict of interest situations and resulted in limiting executives' governmental actions. In some cases, the limitations were not identified by the agency ethics officers until after the executives began their assignments. This highlights the need for reviews to be made before the executives begin their assignments.

During the 1983 to 1984 program, 21 conflict of interest reviews were completed after the assignment began, and the actions of 6 executives were limited. In the current program, 12 conflict of interest determinations were completed after the assignment began, and the actions of 5 executives were limited. The limitations usually involved an executive's permanent employer's relationship to the host agency. The limitations are dealt with by having the executive agree not to participate in any matter that affects his/her financial interests or those of his/her permanent employer. Examples of the types of limitations we found are listed below.

- A public accounting firm executive was advised not to participate in matters before the Federal Reserve which involved his former clients.
- A defense contractor executive was advised to avoid any participation, as a part of his Federal Aviation Administration duties, in any matter which affected a specific interest of his employer.
- An energy-related industry executive was advised not to participate in any matter before the Federal Energy Regulatory Commission in which his company had a financial interest, specifically in two cases before the Commission in which his company was a consumer intervenor.

--An executive was advised to avoid any official involvement with matters which affected a company in which members of his family owned shares.

EVALUATION OF PROGRAM RESULTS

To help ensure that the program achieves its objective of promoting understanding and cooperation between the federal government and the private sector, PCEE requires participants to sign a contract agreeing to return to their sponsoring organizations at the completion of their 1-year assignments. Corporate executives must also agree, in writing, not to accept any federal government positions for 1 year after their assignments. Government executives are precluded from accepting any private positions for 3 years after their assignments. If federal executives violate this prohibition, they may be required to reimburse the government for all moving expenses and educational fees paid.

Our review showed that PCEE does not perform evaluations to determine whether the program's overall objectives are being met. In 1979, PCEE was concerned about the lack of an evaluation system and awarded a contract to a consultant to establish an evaluation methodology for the program. The consultant's report, "Study and Evaluation of the President's Executive Exchange Program," dated August 15, 1980, states:

"Although more than 550 executives from the public and private sectors have participated in the Exchange Program, there has been no on-going, systematic mechanism for assessing the benefits of the program for individual participants and the sponsoring or host organizations. Little information has been collected or maintained on program participants, their experiences during the one-year exchange or their personal and career growth following Exchange Program participation. Consequently, there was no systematic way to insure the extent to which Exchange Program objectives were being met or to provide feedback information to support program planning and management functions."

The consultant developed a proposed evaluation system using entry and exit questionnaires, as well as long-term program impact questionnaires to be administered to program alumni 5 years after program participation. PCEE officials advised us that they did not implement the recommendations because of budgetary constraints and other higher priority items. The officials also said the former Executive Director did not endorse the recommendations.

PCEE currently conducts a mid-point survey in which participants and host organization supervisors are asked to provide their views on how the program is working. Participants are asked to address such matters as their objectives and accomplishments and their positive and negative perceptions about the program. They are also asked for their suggestions on how to improve the program. Supervisors are asked how well the participants are doing and whether anything needs to be done to improve or modify performance. We noted that, for the most part, these surveys had been obtained from participants and supervisors in the 1983 to 1984 program. A PCEE official told us that PCEE reviews the mid-point surveys and makes changes, if warranted, while the program is still in progress. No formal evaluation report is prepared.

The only record presently available showing what has happened to participants since leaving the program is an informal directory maintained by the President's Executive Exchange Alumni Association. The Association is composed of executives who have served in the program. Data is provided to the Association on a voluntary basis and generally indicates the job title of the participants and the name and address of their present employers. Details on the nature of the participants' present duties are limited when they are provided.

CONCLUSIONS AND RECOMMENDATIONS

Regardless of whether the Office of Government Ethics conflict of interest reviews are continued or terminated, we believe it is important that some type of review be made before executives begin their assignments. Since the Ethics in Government Act gives private sector executives up to 30 days after beginning an assignment to file financial disclosure reports, conflict of interest reviews can not always be finalized before the executives begin their assignments. Therefore, some form of preliminary review is needed to identify potential conflicts of interest. These preliminary reviews should include an analysis of the executives' regular position and their 1-year assignment. We believe that this is particularly important in view of the need to limit some of the executives' actions which we noted during our review. (See pp. 6 and 7.) We also believe that, to the extent practicable, executives should not begin their assignments until these preliminary conflict of interest reviews are made. Conflict of interest reviews, based on the financial disclosure reports, should be finalized as soon as possible after the executives begin their assignments.

We also believe that PCEE should establish procedures to evaluate the results of the program in order to determine whether the program is accomplishing its intended objectives and participants are meeting post-employment agreements. Such

evaluations should also identify areas in which improvements can be made for future programs. Such an effort could include questionnaires sent to participants, supervisors, and host and sponsor organizations after the former participants have resumed their positions at their sponsoring organizations.

In this regard, we noted that OPM had incorporated into its guidelines on executive, management, and supervisory development a requirement that OPM and federal agencies work together to evaluate the benefits and costs of development programs in federal agencies. Agencies are required to maintain adequate documentation of program efforts and costs to demonstrate that OPM and agencies' executive, management, and supervisory development policies are being implemented. OPM, in turn, is required to analyze executive, management, and supervisory development program trends and accomplishments; share the results with agencies; and use the results to form the basis for OPM policy. Although these requirements do not apply to PCEE, we believe that similar efforts, if applied to that program, would provide assurance that program goals are being met, would assist the Congress in its monitoring of the program, and would provide the basis for making program improvements where appropriate.

Accordingly, we recommend that you:

- Establish procedures to require that, to the extent practicable, preliminary conflict of interest reviews are made before executives begin their assignments. Further, PCEE should request these reviews in a timely manner to ensure that they can be completed by the time the executives' assignments begin.
- Request private sector executives to file their financial disclosure reports as soon as possible after they begin their assignments in order to facilitate finalizing the conflict of interest reviews.
- Establish procedures to evaluate the results of the program to ensure that objectives are being met and that post-employment agreements are being honored by participants.

AGENCY COMMENTS

On January 30, 1985, and again on March 19, 1985, we met with you and the Deputy Executive Director to discuss the findings, conclusions, and recommendations summarized in this report. You advised us that you agreed with our recommendations to improve conflict of interest controls and to establish a procedure to evaluate the results of the program. You said

that, to the extent practicable, PCEE would ensure that the preliminary conflict of interest determinations are made before the executives begin their assignments. In those cases where this is not possible, the determinations will be made as soon as possible after the assignments begin. You said PCEE would request private sector executives to file the required financial disclosure reports as soon as possible after beginning their assignments. In addition, PCEE would expedite its requests for all preliminary conflict of interest reviews in order to ensure the completion of these reviews by the time the executives' assignments begin. You also said that PCEE would establish procedures to evaluate the results of each participant's exchange assignment to ensure that program objectives are being met and that executives are complying with the terms of their post-employment agreements.

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As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this report are being sent to the Senate Committee on Governmental Affairs; the House Committee on Government Operations; the House and Senate Committee on Appropriations; the Director, OPM; the Director, Office of Government Ethics; and to other interested parties.

Sincerely yours,

W. J. Anderson

William J. Anderson
Director