Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

FOR RELEASE ON DELIVERY
Expected at 10:00 a.m.
Friday, August 1, 1975

STATEMENT OF JAMES T. LYNN
DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
HOUSE SELECT COMMITTEE ON INTELLIGENCE

Mr. Chairman and Members:

I am pleased to be with you today to discuss the role of the Office of Management and Budget. I propose to discuss, first, our general role and then focus specifically on our relations with the Intelligence Community.

OMB's general role is comprised of three major functions:

- First, we oversee and manage the preparation of the Federal budget.
- Second, we work with the agencies to improve the operations of the Executive Branch.
- Finally, we coordinate legislative proposals offered by the Administration and the development of Executive Branch views on legislation pending before the Committees of the Congress.

MORI/CDF

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

OMB Budget Role

There are four major phases in the budget process:

(1) Executive formulation.

(2) Congressional enactment.

(3) Budget execution.

(4) Post audit.

OMB's principal role in the budget process is assisting in executive formulation (step 1 above) and budget execution (step 3 above).

Congressional enactment is, of course, the responsibility of the Legislative Branch, although I testify as appropriate. The post audit phase is handled by the General Accounting Office as well as internal audit groups within the various Government departments and agencies.

Preparation and Execution of the Federal Budget

The President's transmittal of his budget proposals to the Congress in January or February each year climaxes many months of planning and analysis throughout the Executive Branch.

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Preliminary Steps

OMB staff, in cooperation with staff of the Treasury Department and the Council of Economic Advisers, keep under continuous review the relationships between Government finances and the economy generally. This review includes study of recent conditions, as well as the future outlook. Consideration is given to tentative assumptions on the economic environment, projections of revenue expected under these assumptions, and the aggregate range of Government spending levels.

In the late spring, the Office of Management and Budget conducts the Spring Planning Review. Staff prepares estimates indicating a probable range of spending for each of the major programs and agencies for the forthcoming budget. In preparing estimates we draw upon our knowledge of agency programs, agency estimates for particular programs, program evaluation materials and informal discussions with responsible agency budget and planning personnel. We also develop information to relate program objectives to resources requirements.

Paul O'Neill and I then review the fiscal and economic situation, the spending outlook, and the individual program, budget, and management issues posed

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

in the agency presentations. I then discuss our findings with the President, and seek his decisions on planning guidance for each agency and department so that they may reshape their plans and prepare their budgets accordingly. In fact, only a few days ago the planning guidance letters for the FY 1977 budget were sent out.

Compilation and Submission of Agency Budget Estimates

During the next several months agencies revise their program plans in accordance with assigned planning ceilings and program guidance received, and decide upon the budget requests they wish to make for the upcoming budget. They compile schedules and supporting information in accordance with the instructions prescribed by the Office of Management and Budget (Circular No. A-11).

Agency budget submissions are due in the Office of Management and Budget beginning in September. The submission covers all accounts in which money is available for obligation or expenditure, whether or not any action by Congress is required.

Review of agency estimates in the Office of Management and Budget

When the estimates are received in the Office of Management and Budget, they are referred to the examiners

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

assigned to the programs involved. All the knowledge the examiners possess about the agency -- whether based on long-run analyses, field investigations, special studies, or conferences held with agency officials -- is brought to bear on the estimates at this time. The examiners must be thoroughly familiar with the President's budget policy and previous Congressional action, as well as with the programs of the agency and their relationship to activities of other agencies.

The examiners give considerable attention to the bases for the individual estimates: the volume of work on hand and forecast; the methods by which the agency proposes to accomplish its objectives; the costs of accomplishments; and the estimates of requirements in terms of supplies, equipment, facilities, and numbers of people required. They review past performance, check the accuracy of factual information presented, and consider the future implications of the program. They identify program, budget and management issues of major importance to be raised for discussion with agency representatives at hearings. The hearings, held in October and November, may last only a few hours for a small agency, but often run into weeks for a large department.

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

After the hearings are completed, the examiners prepare their summary of the issues and their recommendations for my review. This so-called "Director's Review" provides an opportunity for me and my principal assistants to obtain an understanding of the agency's program and budget requests, an analysis of the significant issues involved, the relationship of the agency requests to the planning ceiling set for the agency as a result of the Spring Planning Review, and recommendations as to budget allowances.

Budget Decisions by the President

Because of the scope and complexity of the budget, I and my principal assistants meet frequently with the President to present major issues for his decision as portions of the Office of Management and Budget reviews are completed during October, November and December. As soon as the President makes his decisions, OMB notifies each agency head of the amounts which will be recommended to Congress for his agency's programs for the ensuing fiscal year. After any appeals by the agency head to the President have been settled, OMB completes the final preparation and printing of the President's Budget for submission to Congress.

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Budget Execution

The Anti-Deficiency Act requires that the Director of the Office of Management and Budget apportion, with a few exceptions, appropriations and funds made available to the Executive Branch. This consists of dividing the total available funds into specific amounts available for portions of the fiscal year or for particular projects or activities. It is a violation of law (31 U.S.C. 665) for an agency to incur obligations or make expenditures in excess of the amounts apportioned.

The objective of the apportionment system is to assure the effective and orderly use of available funds and to reduce the need for supplemental appropriations. It is, of course, necessary to insure flexibility if circumstances change.

Changes in laws or other factors may indicate the need for additional funds, and supplemental requests may have to be transmitted to the Congress. On the other hand, reserves may be established under the Antideficiency Act to provide for contingencies or to effect savings made possible by or through changes in requirements or greater efficiency of operations. Amounts may also be withheld for policy

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

or other reasons, but only under specific procedures established by the Congressional Budget and Impoundment Control Act.

Progress on the budget program is reviewed throughout the fiscal year at successive levels, both in the agency and the Office of Management and Budget. Periodic reports on the status of apportionments are supplemented by more specialized reports which relate accomplishments to cost. Shifts in the agency budget plans are frequently required to meet changing conditions -- to finance unforeseen circumstances or to provide savings where the workload is less than was estimated or where increased efficiency permits accomplishment at less cost than was anticipated.

Preparing the Intelligence Community Budget

I have spent some time providing the general backdrop of OMB's process of preparing the President's Budget because the OMB role and process of preparing the intelligence budget is essentially the same as that with respect to the budget of any other Executive Branch

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

department or agency. Let me cite a few examples of this, particularly as it relates to the 1976 budget process for intelligence.

1. The principal U. S. foreign intelligence activities are examined by a single unit in OMB contained within OMB's National Security Division and reporting to OMB's Associate Director, Mr. Donald G. Ogilvie, who is responsible for national security and international affairs. Under Mr. Ogilvie, this unit, consisting of a branch chief and five professional examiners, reviews the budgets of the Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, and those intelligence activities of the Army, Navy, and Air Force that bear most directly on U.S. intelligency capabilities.

By way of a footnote, I should state that they do not examine the domestic information-gathering of the FBI or other non-foreign intelligence-related activities. They also do not examine most of the military or force-related intelligence activities of the Military Departments that are intended for wartime support to military forces during operations. These activities are the responsibility of other branches of OMB.

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

2. The intelligence programs are examined in the same context and in the same time frame as are all other Executive Branch activities. The current and projected economic situation is considered; pertinent Presidential guidance on intelligence is taken into account; and the effectiveness of the programs is analyzed.

3. During the 1976 budget formulation process, the Director and Deputy Director held in-depth sessions with the Associate Director and the staff on all these activities. Intelligence activities and programs were evaluated in June of last year, major policy and program issues were identified, and alternative long-range program plans were discussed. Guidance in the form of a planning target for the Intelligence Community's budget submission was provided to the Director of Central Intelligence and the Secretary of Defense in July of last year. We follow the same basic procedure each year.

4. After the budgets were submitted in October and reviewed by the OMB staff, the Director and Deputy

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Director reviewed the total Intelligence Community budget in December. Then two meetings were held to review the issues with the President who made the final decisions.

5. A final allowance letter was sent by the Director of OMB to the Director of Central Intelligence and the Secretary of Defense informing them of the funds included in the President's budget for the Intelligence Community.

Differences in Budget Preparation with Respect to Intelligence

The only differences between OMB's role in the preparation of Intelligence Community budgets and those of other agencies result from the sensitive classification of the Intelligence Community budgets and the fact that part of the Intelligence Community budget is subject to joint review by the OMB and the Secretary of Defense.

Because most intelligence budget information is sensitive and classified, it is not specifically identified in the President's Budget. This is a legitimate area for review, but it cannot be clearer that:

1. The Director of Central Intelligence, who by statute is responsible for protecting intelligence

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

sources and methods, has determined that most of the budget information is classified, and

2. The Congress has consistently supported the view this classification of intelligence budget information is appropriate, most recently in a Senate vote of June 1974.

Mr. Colby can provide more detail on this matter.

As a result of the classification of most intelligence budget information, OMB, both in its relationship with the intelligence agencies and in its relationship with the Congress, has taken measures to protect this information, while ensuring that the Congress has the requisite information so that it can perform its constitutional role in reviewing the budgets of the agencies and in authorizing and appropriating funds for these activities. For example, the Director of OMB has by long-standing practice sent letters to the Chairmen of the Appropriations Committees identifying the amount of funds the President is requesting for the Central Intelligence Agency. These Chairmen annually have responded in a classified letter to the Director of OMB indicating Congressional action on this request.

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

I should emphasize that the classification of intelligence budget information does not mean that Congress is uninformed about the cost, purposes, results, and effectiveness of U.S. intelligence activities. The Director of Central Intelligence testifies annually on the Intelligence Community budget before both the special oversight subcommittees of the Armed Services and Appropriations Committees. The Assistant Secretary of Defense for Intelligence, the Director of the National Security Agency, the Director of the Defense Intelligence Agency, and representatives of the Army, Navy, and Air Force also testify on their budget requests for intelligence.

The second difference in OMB's examination of intelligence activities in comparison to most other non-intelligence activities is related to the OMB joint review with the Department of Defense. For those intelligence activities of the Defense agencies -- Defense Intelligence Agency and National Security Agency -- and of the Military Departments, OMB participates in a joint review of the budget requests with the Office of the Secretary of Defense.

Let me briefly describe this process. OMB is a formal participant in the joint budget review and plays an informal

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

role throughout the entire Defense program and budget cycle. An outline of the program and budget review calendar is as follows:

January. The five year Defense plan is updated by the Defense Comptroller staff to reflect decisions made in the just completed budget review.

February. The Secretary issues Planning and Programming Guidance, including fiscal levels, to the Services for preparation of the next five year plan. These planning levels have historically been higher than those identified in the President's Budget. While OMB has no formal role at this stage, there may be input from the OMB Director to the Secretary regarding appropriate fiscal levels.

March-May. Based on the Planning and Programming Guidance, each Service submits a Program Objectives Memorandum which proposes a five year force structure and resource plan.

May-August. The Program Objectives Memoranda are reviewed by the Office of the Secretary of Defense staff, principally the Program Analysis and Evaluation staff with inputs from other components of the Office of the Secretary of Defense. The culmination of the

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

reviews are Program Decision Memoranda issued by the Secretary to the Services which provide both programmatic and fiscal modifications to the Program Objectives Memoranda. The focus of the May-August review is the whole five year period, and the emphasis is on forces, deployments and operating rates. In general, OMB monitors the process and may introduce or critique issues. OMB staff studies may be reviewed by Defense staff at this time and may form a basis for Program Objectives Memorandum issues as well as budget issues at this stage of the process. The historical OMB role has been to maintain an informal presence, reserving a formal role until later when the OMB Director and the President are personally involved.

September. The Services prepare a budget submission based on Program Decision Memoranda guidance.

October-December (The Joint Budget Review). The Services submit budgets for "joint" review by the Office of the Secretary of Defense and OMB staff. The joint review is unique to Defense, involving OMB staff working jointly with the DOD staff in reviewing the Service estimates for the Secretary. The function of the joint review is to (a) price out decisions reached during the

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

preceding Program Objectives Memorandum review; (b) allow the Secretary to reconsider decisions made in Program Objectives Memorandum cycle; (c) introduce new program issues. OMB program issues are formally introduced at this stage of the review process. The decisions made by the Secretary of Defense in the joint review form the final budget submission to OMB.

This basic joint review procedure is adhered to with respect to Defense intelligence activities. It culminates, of course, in the final decisions by the President.

Differences in Budget Execution with Respect to Intelligence

There are also some differences in the budget execution phase that, while not unique to intelligence activities, I wish to call to your attention.

First, it is normal practice for OMB to apportion funds based on the appropriation structure that is presented and approved by Congress. Since most intelligence activities are included in larger appropriations within the budget, OMB does not take an apportionment action specifically identifiable to intelligence activities. Nonetheless, all intelligence funds are reviewed by OMB prior to apportionment

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

of the larger appropriation within which they are included.

One exception to this is the Central Intelligence Agency where OMB apportions all funds for this agency as a separate entity.

Second, reprogramming is handled somewhat differently. For a typical agency or department, reprogramming controls are based on line item identification in appropriations. Such identification is absent from most of the intelligence appropriations because of security considerations. I believe, however, that in spite of this difference, significant changes in the use of funds do not occur without our knowledge. In the various reviews in which OMB staff participates throughout the year, the intelligence agencies do report on significant changes in their activities and the financial changes to the President's budget.

Finally, some transfers are made into certain intelligence activities under provisions of the Economy Act (31 USC 686). This Act permits purchase of supplies and

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

service by one agency for another when it is more economical to do so. These transfers are not formally approved by OMB. Again, there is no lack of OMB or, for that matter, Congressional knowledge of these transfers which are reflected in both budget submissions to OMB and budget justification material provided to the Congress.

These distinctions in OMB practices with respect to execution do not, I believe, materially affect the way OMB approaches its responsibilities or the way the intelligence agencies carry out their responsibilities. I do not believe that the types of problems that are being investigated would have been prevented by changes in the way OMB has approached its responsibilities in execution of the Intelligence Community budget. In the final analysis, abuses of authority can be prevented only by ensuring the integrity and capability of the people in the Intelligence Community.

On the other hand, it is certainly possible that some revisions in Intelligence Community budget execution may be appropriate. For this reason, I have directed that the OMB staff review the present practices, the options available for changes in these practices, and the advantages and disadvantages of these alternative approaches.

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

OMB Management Role

OMB's second major function is to work with Federal agencies in efforts toward better management.

- This responsibility is carried out by assisting the Federal departments and agencies in the development of new management systems, such as management by objectives and studies of major policy issues and management problem areas.

- OMB monitors the management by objectives program with which you may be familiar. In this program, the objectives of the agencies and departments proposed in discussion with the OMB staff are actively monitored to ensure that important agency and Presidential objectives are being accomplished.

These functions are applied to the Intelligence Community in the same way as the other Federal agencies and departments. OMB staff participate in numerous studies

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

and special reviews of intelligence activities. Director Colby has played an active role in the management-by-objectives process.

OMB Legislative Coordination

The final role of the Office of Management and Budget is to coordinate the Administration position on legislation. On behalf of the President, OMB works with other elements of the Executive Office of the President and with the agencies to carry out the President's legislative responsibilities, including agency proposals, reports, testimony on pending legislation, and enrolled bills.

The legislative coordination function has several purposes:

- It provides a mechanism for staffing out agency legislative proposals which the President may wish to include in his legislative program.
- It helps the Executive agencies develop draft bills which are consistent with and which carry out the President's policy objectives.

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

- It is a means of keeping Congress informed (through the "advice" transmitted by the agencies) of the relationship of bills to the President's program.

- It provides a mechanism for assuring that Congress gets coordinated and informative agency views on legislation which it has under consideration.

- It assures that bills submitted to Congress by one Executive agency properly take into account the interests and concerns of other affected agencies and will therefore have the general support of such agencies.

- It provides a means to reconcile divergent agency views.

OMB's legislative coordination function with respect to legislation affecting intelligence activities is no different from that performed in any other area of Federal Government activity. For example, during the last year, OMB in conjunction with other elements of the Executive Office of the President and appropriate agencies has:

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3

1. Coordinated the Executive Branch position on bills affecting the tenure of the Director of Central Intelligence and annuities under CIA's retirement plan.

2. Reviewed draft Department of Defense legislation affecting personnel in the Defense Intelligence Agency and the National Security Agency; and

3. Initiated the legislative clearance process with respect to proposed legislation on the protection of intelligence sources and methods.

Conclusions

That is a brief overview of our role and the ways in which we work with the Intelligence Community. At this time I will be pleased to answer your questions.

Approved For Release 2006/11/22 : CIA-RDP82B00871R000100070002-3