

The Need for an Effective Budget Structure and Process

THE annual budgets for U.S. intelligence organizations constitute one of the principal vehicles for managing intelligence activities. They reflect decisions on whether to expand or cut existing activities and whether to initiate new ones, thereby molding future capabilities. How effectively and efficiently the Intelligence Community operates is to a large degree a function of how these budgets are put together and how they are approved and implemented.

The budget process for most departments and agencies is relatively straightforward. A budget is prepared in accordance with the funding level approved by the President and submitted to Congress as part of the President's annual budget. After its review, the Congress appropriates funds for the agency concerned.

Where intelligence—a function, rather than an agency—is concerned, the budget process is more complex. This complexity exists essentially for two reasons. The DCI is charged by law with developing and approving a budget for “national” foreign intelligence activities that cut across departmental and agency lines. In addition, the budget developed by the DCI for “national” intelligence activities is but one of three resource aggregations that make up the overall intelligence budget. The other two aggregations are funded separately by the Department of Defense.

The implications of this arrangement for the DCI and the intelligence function are explained below.

The National Foreign Intelligence Program Budget

The budget for national intelligence programs is known as the National Foreign Intelligence Program (NFIP) budget. In theory, the NFIP funds all of the foreign intelligence and counterintelligence activities of the Government that respond to “national” needs, as opposed to the needs of a single department or agency. Put another way, it funds the activities of the U.S. Intelligence Community, as defined in law and described in this report.¹

Intelligence activities compete with other funding priorities of the parent department or agency that manages the intelligence unit(s). The funds appropriated for NFIP activities are made available to the parent department or agency and not to the DCI.² Thus, intelligence funds represent a part of the budgets of the several departments and agencies which maintain intelligence elements with national responsibilities. In developing a single “national” foreign intelligence budget, the DCI must first accommodate the funding levels

¹ The intelligence organizations of the Departments of the Army, Navy, and Air Force also receive significant funding outside of the NFIP.

² Funding for the CIA is appropriated to the Department of Defense, which transfers it to the CIA.

and priorities of the department or agency that “owns” the intelligence element(s) concerned. At the same time, the DCI must devise an overall intelligence program to satisfy national needs.

DoD “owns” the preponderance of national intelligence capabilities and its intelligence spending accounts for about three-fourths of the NFIP. When DoD spending is combined with CIA spending (which also is funded in the Defense budget for secrecy reasons), they constitute virtually all of the total budget for national intelligence. For all practical purposes, therefore, the amount determined by the Secretary of Defense, in consultation with the DCI, for “national” intelligence activities within the Defense budget is the National Foreign Intelligence Program budget.

From the overall level established for the NFIP, the DCI establishes funding levels for certain component “programs,” each of which is administered by a separate “program manager.”³ These program managers perform the detailed work of assembling the budgets for each program which are ultimately reviewed and submitted to the DCI for approval. To succeed in their task, program managers must understand the information requirements likely to be placed on them and decide how best to satisfy them. For the costly technical disciplines, program managers must try to divine what technological capabilities are likely to be available and needed during the next five to 10 years so that funding can be included in their budget requests. They also must decide, given the amount of funding they have to work with, where tradeoffs have to be made, for example, should more be allocated to collection or processing? To personnel or investments in new technology?

Intelligence Programs Separately Funded by the Department of Defense

The NFIP budget at present comprises about two-thirds of the total spending for U.S. intelligence. The remainder is funded in one of two separate aggregations within DoD’s budget:

- ◆ The Joint Military Intelligence Program (JMIP), managed by the Deputy Secretary of Defense, is composed of several separate sub-programs each managed by a different DoD official. They respond to defense-wide intelligence needs as opposed to the needs of a particular military service.
- ◆ Tactical Intelligence and Related Activities (TIARA) is an after-the-fact aggregation of funding for tactical military intelligence projects and combat support units which are not centrally managed. Within DoD, each military service and the U.S. Special Operations Command budget for its own tactical intelligence

³ As generally used in this report, “program managers” refers to those individuals who formulate the budget of a particular subcomponent, or program, within the NFIP. For example, the program managers of the four largest NFIP subcomponents are the Director, NRO (for the National Reconnaissance Program); the Director, NSA (for the Consolidated Cryptologic Program); the Executive Director, CIA (for the Central Intelligence Agency Program); and the Director, DIA (for the General Defense Intelligence Program). However, there are other intelligence program managers, such as the Director, Defense Airborne Reconnaissance Office (for the Defense Airborne Reconnaissance Program, a subcomponent of DoD’s Joint Military Intelligence Program).

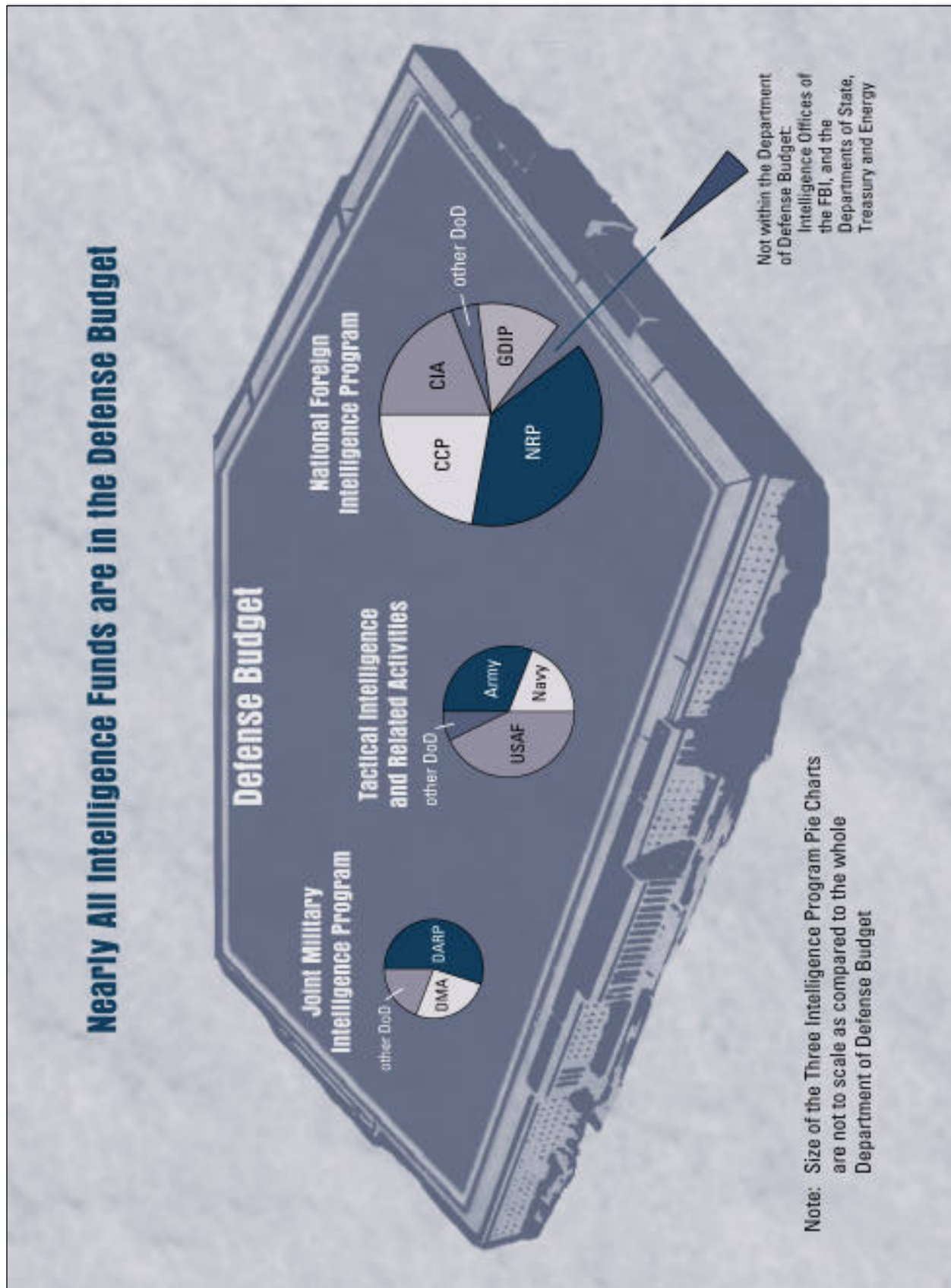


Figure 7:1

capabilities within the context of its annual budget. These decisions are reported to the Office of the Secretary of Defense, which aggregates them for purposes of providing them to the Congress and others within the Executive branch.

In order to assess sensibly what should be spent on national intelligence programs funded in the NFIP, many of which principally support military requirements, the DCI and the NFIP program managers must understand which military intelligence capabilities are being separately funded by DoD in the JMIP and TIARA. Heretofore this was accomplished on a largely *ad hoc* basis, with the Assistant Secretary Defense for Command, Control, Communications and Intelligence (ASD(C³I)) serving as the principal bridge between national, defense-wide, and tactical programs. Recently, however, the DCI and the Secretary of Defense agreed that all intelligence programs that support military operations would be reviewed together. After this joint review, the DCI and the Deputy Secretary of Defense would recommend an overall intelligence program and budget to the Secretary of Defense for his decision. The Secretary would then submit the defense budget, including intelligence funding, to the White House for inclusion as part of the President's budget.

The new joint budget review is clearly desirable to identify waste and duplication and improve overall efficiency among intelligence activities. However, some have urged the Commission to go further and recommend that JMIP and TIARA funds be consolidated with the NFIP. This one intelligence budget would be under the DCI's control to bring more coherence and efficiency to intelligence spending. The Commission does not, however, think that such consolidation is either necessary or desirable. DoD and its subordinate military departments have separate needs, apart from national needs, that they have a right—and indeed, an obligation—to fund. For example, the DCI is not the most appropriate official to decide how many (or which) reconnaissance aircraft are appropriate for Army units in Korea. This is not to say the military departments should act without regard to the overall needs of the nation, but only that they have separate needs which they attempt to satisfy within the funds available to them. The Commission's recommended changes to the budget process, described later, would effectively achieve the same result without unduly interfering with the independent authorities of the Secretary of Defense or those of the military departments.

The Commission also found numerous and significant shortcomings in the way the NFIP is structured and in the way it is prepared. The remainder of this chapter is devoted to these topics.

Program and Budget Structure

Budgeting By “Business Area”

As noted above, the NFIP is composed of separate “programs,” each with its own “program manager” (e.g. the Consolidated Cryptologic Program is managed by the Director, NSA). These component programs are not, however, grouped around a consistent organizing principle. Some fund a type of intelligence activity; others fund a particular agency; and others fund a combination of both. As a result, no single program manager has budgetary responsibility for a given intelligence “business area” or discipline (such as

signals intelligence or imagery). Instead, activities within a particular discipline are funded in several component programs. In simple terms, like activities are not grouped together for purposes of resource allocation or program execution. This structure makes it very difficult to identify wasteful activities, decide where tradeoffs should be made, and determine where cuts should be taken, if required. As the DCI recently observed, the “Intelligence Community has been relatively free from the systematic planning, programming, and budgeting process that is the hallmark of efficient government ... The present system does not permit resource-saving trade-off analysis: for example, the possibility of substituting satellites for aircraft imagery or signals collection. ...”

The existing structure also increases the likelihood that like activities funded in different programs will not interoperate or otherwise complement each other once deployed. The Commission was provided several examples by senior military officials and intelligence officers of redundant systems, funded in different programs, which were either inefficient or not interoperable. The problems with disseminating imagery during Operation Desert Shield/Storm, for example, were attributed to funding numerous imagery dissemination systems in different programs without coordination between them. Further, despite large expenditures on technical collection systems, the Intelligence Community’s inability to process data collected by existing systems is attributable in part to the funding of these activities in different programs.

Given that like activities in each of the intelligence disciplines are also funded by DoD’s JMIP and TIARA aggregations, and that the same situation exists with respect to each of them, the scope and effects of the problem are multiplied.

The Commission concludes that the current program budget structure and diffused responsibilities over basic business areas have resulted in unnecessary duplication, interoperability problems, and other inefficiencies. These problems exist within the NFIP, and among NFIP, JMIP and TIARA activities, creating a substantial obstacle to the efficient use of intelligence resources.

7-1. The Commission recommends that:

- (1) The budget for the National Foreign Intelligence Program be restructured by creating new discipline-oriented programs for SIGINT, IMINT, MASINT and HUMINT, each with a single program manager (see Table 7.1 below). The budgets (but not operational control) for all SIGINT activities in NFIP programs would be transferred to the new SIGINT program; the budgets for all IMINT activities to the new IMINT program, and so forth. In addition to these discipline-oriented program budgets, the DCI should allow for agency-oriented infrastructure programs to fund activities that provide general support to the disciplines (e.g. CIA Headquarters building).**

Table 7-1: Increasing Budget Formulation Responsibility for NFIP Program Managers in each of the Intelligence Disciplines

Intelligence Discipline	Proposed NFIP Program Manager	Percentage of <i>national</i> (NFIP) discipline activity budgeted by each program manager	
		Today	Commission's Plan
Imagery Intelligence	Director, National Imagery and Mapping Agency	3%	100%
Signals Intelligence	Director, NSA	52%	100%
Measurement and Signature Intelligence	Director, DIA	87%	100%
<i>Clandestine</i> Human Intelligence	Deputy DCI for CIA	96%	100%
Notes: Two proposed program managers—the Director, National Imagery and Mapping Agency and the Deputy DCI for CIA—are positions which do not currently exist, but have been endorsed by the Commission. The 3% figure, associated with imagery intelligence, refers to funds currently budgeted by the Director, CIO. The 96% figure, associated with clandestine human intelligence, refers to funds currently budgeted by the Executive Director, CIA.			

- (2) **The Secretary of Defense vest authority in the national program managers for SIGINT, IMINT, and MASINT, respectively, to perform the initial budgetary review of investments in defense-wide and tactical intelligence capabilities that may be funded outside of the NFIP. The Secretary of Defense would continue to have final approval on these DoD investment projects. The Director, NSA has already been placed in this position by the Secretary of Defense with respect to SIGINT activities. The Commission recommends extending this concept to the two other DoD officials who also would serve as national program managers. Each discipline or business area would then have a single authoritative program and budget manager for its intelligence activities. Responsibility for carrying out the various intelligence activities funded by any of these programs would not change under this proposal whether such responsibility now rests with national intelligence agencies or DoD elements.**

The Commission believes that if these steps were taken, program managers would be able to develop cohesive programs involving all assets within a particular discipline, as well as trade off capabilities within a particular discipline (regardless of where the funds are spent). These managers also would be able to better determine investment priorities, eliminate unwarranted duplication, and significantly improve end-to-end interoperability within their discipline.

These changes should also facilitate tradeoffs between disciplines, and between NFIP and Defense programs, substantially helping the DCI and the Secretary of Defense

reach sensible, cost-effective decisions. They will also help OMB and the Congress perform their respective reviews and assessments of intelligence spending.

It was suggested to the Commission that intelligence budgets be constructed not around disciplines but around missions, e.g. support to military operations, support to policymaking, similar to the program “packages” used in the planning, programming, and budgeting process of the Department of Defense. The Commission agrees that examining tradeoffs among the various capabilities within each discipline (SIGINT, IMINT, etc.) in terms of how they satisfy mission categories is an effective way to make *program* decisions.

However, most intelligence capabilities can be used to support a variety of missions and the missions themselves are constantly in flux. It does not appear feasible, therefore, to build an intelligence *budget* according to how the intelligence capabilities being funded may or should be ultimately used. Clearly, those building intelligence budgets must understand the capabilities of the systems and activities being funded in terms of how well they can be expected to satisfy the requirements of a variety of missions. Moreover, once intelligence capabilities have been fielded, they must be managed in such a way as to achieve the missions of intelligence in the most efficient and effective way. (Thus, intelligence capabilities might be evaluated in terms of how they satisfy the requirements of particular missions by arraying them on a matrix, with “missions” as columns and capabilities within “disciplines” as rows.) It is difficult, however, for the Commission to see how intelligence *budgets*, in the first instance, could be constructed according to particular missions.

Funding for Departmental Analysis in the National Foreign Intelligence Program

The NFIP includes three small programs⁴ that fund the analysis of intelligence at the Departments of State, Treasury, and Energy. Each is developed within its parent department and competes against the other funding priorities of that department. After the Secretary of each department approves his or her proposed budget, including funding for intelligence analysis, the request is sent to OMB for review and adjustment in light of Presidential priorities.

Budget estimates for these intelligence elements also are sent to the DCI. But because the programs are small and have competed internally within their own departments, the DCI typically accepts the estimates without change.

The NFIP also includes the General Defense Intelligence Program (GDIP) managed by the Director, DIA. The GDIP funds an array of activities that provide for:

- ◆ military intelligence analysis at DIA, nine Unified Commands, and the military intelligence commands of the Army, Navy, and Air Force;
- ◆ infrastructure for DIA and the military service intelligence commands;

⁴ As a group, these three programs constitute less than one-half of one percent of the NFIP.

- ◆ intelligence openly collected by Defense Attaches and other DoD personnel;
- ◆ intelligence clandestinely collected by DoD personnel; and
- ◆ certain technical collection efforts (e.g. characterizing foreign nuclear testing).

Under the Commission's recommended structure for the NFIP, the GDIP's clandestine human intelligence activities and technical activities would be moved to the new consolidated national programs for clandestine human intelligence and measurement and signature intelligence, respectively. This would leave the GDIP composed essentially of intelligence activities that serve principally departmental purposes.

In light of this, the Commission considered whether the budgets for the small departmental intelligence elements and the reduced GDIP should remain within the NFIP. DCIs have historically played a limited role with respect to these budgets, but their budgetary role has been, and continues to be, a key element of their authority with respect to other elements of the Intelligence Community. ***To maintain the DCI's cognizance over these intelligence programs, the Commission concluded that the budgets for the small departmental elements and for the GDIP should remain under the DCI's authority as part of the NFIP.***

Counterintelligence Funding

As discussed in Chapter 2, counterintelligence is a critical part of nearly all intelligence activities. When performed properly, the counterintelligence function is integral to the intelligence activity itself and part of the overall security of the organization. As the Ames case demonstrated, the consequences of poor counterintelligence can be disastrous and deadly.

The FBI has a mission to "protect the U.S. from the intelligence activities of foreign powers and international terrorists through neutralization of activities inimical to our national security interests." By law and Presidential directives, the FBI has been designated as the federal government's lead agency for counterintelligence investigations and operations. Outside the U.S., the FBI coordinates its counterintelligence efforts with the CIA. Within other elements of the Intelligence Community, counterintelligence principally involves providing internal security to the parent organization at a level consistent with the needs of the organization.

Given these factors, the counterintelligence function is not readily amenable to budgetary tradeoffs among the various agency counterintelligence staffs. There is, however, a need for an independent review of counterintelligence budgets to ensure that adequate resources are being allocated to the function consistent with national objectives and priorities. In the past, funding for counterintelligence activities has occasionally been a convenient place for agencies under budget pressures to find money for other activities. This must be assiduously prevented. Funding for counterintelligence activities is now provided by the NFIP subject to the DCI's approval. Separate authority to conduct reviews of counterintelligence budgets is also lodged by Presidential Directive in the National Counterintelligence Policy Board, created in 1994 in the wake of the Ames case. The Board reports

to the Assistant to the President for National Security Affairs and includes senior representatives from the FBI; CIA; the Departments of Defense, Justice, and State; the military services; and the National Security Council staff.

The Commission believes that funding for counterintelligence activities should remain a part of the National Foreign Intelligence Program. At the same time, it is useful to have the National Counterintelligence Policy Board perform a separate review of counterintelligence budgets. Together, they should provide assurance that funding is adequate to achieve national objectives and priorities as well as prevent counterintelligence funds being used for other purposes.

The Budget Process

In addition to the problems found in the existing budget structure, numerous problems appeared to exist with the process used to develop and implement the budget.

Program Guidance and Evaluation

The DCI is charged by law to “provide guidance to elements of the Intelligence Community for the preparation of their annual budgets.”⁵ Usually, this guidance is issued by the DCI’s staff or jointly with the Office of the Secretary of Defense after an overall level of funding has been decided by the Secretary of Defense and the DCI, and takes into account presidentially directed needs and priorities, statements of national security strategy, analyses of intelligence “gaps” and future needs, and other pertinent direction. Often, however, this guidance comes after the program and budget process has begun, and the program managers have already incorporated their own assumptions about intelligence requirements into budget estimates. In the view of the Commission, the current quality and timeliness of program guidance is far from optimal.

Furthermore, according to many who spoke with the Commission, it is rare, if ever, that a program manager will have adequate evaluations from customers of how well the activities funded by his or her program respond to their information needs. Without such evaluations, it is difficult for program managers to identify and give priority to their most effective intelligence capabilities when building programs.

On the whole, the Commission believes that evaluations of intelligence by users should be relied upon to a far greater extent in the budget process. In Chapter 3, the Commission recommends that a “consumers committee” be established as part of a “Committee on Foreign Intelligence” under the National Security Council with ongoing responsibility to identify intelligence requirements and priorities, and to evaluate the Intelligence Community’s response to policymakers’ requirements. Inputs from this Committee, along with the fiscal decisions which he develops with the Secretary of Defense, should help the DCI to issue effective and timely guidance to support program and budget building. These evaluations also should enable program managers to know what intelligence support is, and is not, working well.

⁵ Public Law 102-496, Sec. 705.

Strengthen Community-Wide Analysis of Intelligence Budget Items

Historically, the program and budget submitted by each NFIP program manager has been changed little, if at all, by the DCI's staff. There are several reasons for this, including the lack of a sufficiently capable analytical staff permanently assigned to the DCI, the DCI's focus on other important responsibilities, and prior agreements between the DCI and DoD which excluded certain staff offices of the Secretary of Defense (e.g. Comptroller and Program Analysis and Evaluation) from reviewing NFIP programs, as they do for Defense programs. In the view of the Commission, these bureaucratic arrangements must be changed if economy and efficiency are to be achieved. While the new DCI has taken initial steps in this regard, they have not yet been implemented fully.

7-2. The Commission recommends that the DCI establish a permanent cadre of analysts reporting to the Deputy DCI for the Intelligence Community to analyze and evaluate intelligence programs, identify inefficiencies within those programs, and assess trade-offs among programs. These analysts should include some with experience in the intelligence agencies and some with experience principally outside of intelligence. Further, current plans to include the DoD Comptroller, the Secretary of Defense's Program Analysis and Evaluation staff, and OMB staff in the review of national intelligence programs should be carried out.

Information on intelligence programs has not been organized to facilitate decision-making by the DCI or to provide outside reviewers, such as OMB, with an informed view. Although the DCI and DoD each maintain classified databases that track intelligence resources, they do not allow decisionmakers to have their questions readily answered at a meaningful level of accurate detail. Furthermore, 60 percent of NFIP funds are obscured by lumping them into a category called "base" which is minimally described, even in budget books sent to the Congress. It is these types of vague accounting and budgeting practices that permitted the accumulation of large NRO reserves, reported recently in the media, to go undetected.

The Commission understands that commercially-available computer technology would permit existing agency data files to be aggregated and analyzed without re-keying or manually re-formatting the data, allowing for the creation of a consolidated Community-wide data base that encompasses national, defense-wide, and tactical resources. However, despite the power of available technology, implementing this management information system may require one to two years to achieve the desired results.

Ideally, the building blocks of such a database would be individual "projects" or "activities" that accomplish a single purpose, rather than large amounts attributed to "base" that do not inform decisionmaking. Such a change would be in line with the private sector trend toward "activity accounting" to improve decision-making.

In the Commission's view, a Community-wide database of national, defense-wide, and tactical intelligence resources is feasible and highly desirable. Such a tool would allow the Secretary of Defense, the DCI, program managers, and other stakeholders to identify program issues, analyze all related resources, and improve the chances for implementing the most cost-effective intelligence program. An improved budget process, as recommended above, should allow the DCI and Secretary of Defense to identify excesses

or shortfalls within each intelligence discipline and facilitate tradeoffs among the intelligence disciplines to optimize the government's intelligence posture. For example, the DCI and Secretary would be able to track funding for new technological innovations regardless of program and funding source. Better and more accessible resource data would allow program managers to design and fund a more efficient end-to-end system for each intelligence discipline and facilitate a matrix approach to budget analysis that would allow program managers to evaluate how particular intelligence capabilities were contributing to the missions of intelligence.

7-3. The Commission recommends that the DCI, in consultation with the Secretary of Defense, develop and implement a database to provide timely and accurate information on the purposes, amounts, and status of resources for national, defense-wide, and tactical intelligence activities. To minimize time and expense, this database should build upon existing data files from the agencies involved and be available for use by all appropriately cleared resource management officials and decisionmakers. A goal should be established to have such a database in place prior to developing the budget for fiscal year 2000.

Monitoring Expenditures

In the normal course of the budget process, once Congress authorizes and appropriates funds, OMB apportions the funds to DoD for all programs included in the DoD budget. The DoD Comptroller then transfers to the military services, defense agencies, and the CIA the authority to spend money in accordance with the congressional direction. In turn, the agencies build their financial plans and display in detail the manner in which they intend to spend money. Deviations from these plans that exceed stated thresholds are subject to "reprogramming" actions, usually requiring the approval of Congressional committees, the DCI, the Office of the Secretary of Defense and OMB. The DCI, program managers, and other review authorities must remain apprised of the status of expenditures in order to ensure that programs are being implemented according to the intent of the original requests and Congressional mandates. Currently the DCI must be notified by agencies of reprogramming actions that exceed Congressional thresholds. ***The Commission found that the DCI and his staff, some program managers, and other review authorities such as OMB, are not always given sufficiently detailed information to stay abreast of how agencies are spending money. Knowledge of current spending in any one area is critical to formulate and review requests for new spending in that area.***

7-4. The Commission recommends that all intelligence agencies provide the DCI, program managers, and other review authorities with budget execution (spending) reports in sufficient detail to follow budget implementation and analyze reprogramming requests. The budget spending reports should be periodic, timely, and at a meaningful level of detail (e.g. by major project).

The Impact of the Commission's Recommendations

The Commission believes that if the recommendations proposed in this chapter are adopted, they would provide a far more effective framework for the allocation of

intelligence resources. They would facilitate the identification of wasteful activities, promote interoperability among systems and programs, and provide a better basis for streamlining and consolidation. The public would have greater assurance that the Intelligence Community of the future was operating effectively and efficiently. The budget structure and process which exist today do not provide such assurance.

The Commission's recommendations on the budget process, particularly building a Community-wide resource data base, would require an initial (though not large) outlay of funds, but should pay for themselves many times over in terms of the efficiency brought to the budget process.