

Monies made available to the Agency by appropriation thru the Congress have come to be known as confidential funds. Technically, it is a misnomer and has grown out of the fact that details of expenditures that are made with the funds are to be treated confidentially, that is, held within the confines of the Agency and not forwarded to the General Accounting Office for normal Government audit.

The public law which extends to this Agency the authority to expend funds for "objectives of a confidential, extraordinary, or emergency nature", permits such expenditures to be accounted for solely on the certificate of the Director. A literal interpretation of this law gives the Director absolute power to control the expenditure of confidential funds allocated to the Agency. It is obviously impossible for the Director to himself supervise and approve or disapprove each expenditure of confidential funds. He has, however, thru the medium of regulations, set out rules for the handling of such monies and, for most purposes, has delegated his authority for authorizing and approving disbursements.

In exercising the authority that goes with the use of confidential funds, there are limitations imposed on the use of such funds by

- a. legislative intent,
- b. historic usage of funds of this type in other agencies,
- c. a reasonable attempt to limit the use of this type of fund to those expenditures which of necessity must be handled in this manner.

The history of our legislation will show that Congress clearly intended that the Agency be enabled to act as a mature intelligence service. On this basis the justification for confidential expenditures of an operational nature is clear. We get into a more difficult situation, however, when we attempt to

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cover administrative type expenditures from confidential funds. In this area we have the power to make payment, however, we may not have the authority to make payment. In many instances where a situation has resulted in apparent inequities to an individual, from administrative procedures, attempts have been made to undo the inequity thru the use of confidential funds. In attempting to present justification for relief of the individual, there is a tendency to resort to an "operational need" type of explanation. Situations of this kind, which may in some instances be a sort of subterfuge, inevitably tend to break down accepted standards and policies for expending confidential funds in compliance with general laws and regulations. Compliance with general laws and regulations is the aim of the Agency except where it is impossible to do so because of the peculiar nature of our operations.

We are attempting to develop accounting practices and procedures which fix responsibility for the reporting and accounting for expenditures to the degree compatible with security and operational circumstances, and maintain such accounts and records as are required to provide a comprehensive basis for relieving the employee of his accountability when a proper accounting has been rendered, and furnish reports which can be used as tools of management to assist in the more effective direction of the Agency.

In this Agency the security and operational circumstances of the expenditure of funds for intelligence operations demand a flexible basis of rendering accounts in the light of the circumstances surrounding the particular operation. The general concept of the requirements for the basis of accounting is to get properly itemized vouchers or receipts wherever and to the extent that security and operating conditions permit. However, these requirements are relaxed as appear to be justified to carry out the particular mission or activity. We feel it is more important to emphasize accounting requirements on principles and

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criteria rather than inflexible regulations. We like also to think that we are being helped in this regard by the desire of those officers actually expending monies on operations for self protection. The thought uppermost in the mind of a person expending Government funds ought to be "how can I best, under the conditions surrounding this disbursement, satisfy other interested parties that I did, in fact, expend these funds in the best interests of the Government?" If this question is honestly answered and steps taken to implement the answer, there should be no difficulty in developing an acceptable accounting.

Inasmuch as criteria have been established for accountings, there obviously must be an audit program to check on the compliance with the regulations. Observations of finance case histories of covert operations indicate that abusive or unethical practices will not be followed by the majority of our employees, even where there is no restraining influence in the form of an audit and inspection program. It does appear, however, that instances of abuse do increase when there is a lack of financial audit. Another aspect of the situation which we must keep in mind is the fact that we are using public funds and it is a fundamental concept in the United States that those who expend "people's money" must account to the people. <sup>(Congress thru its representatives, GAO)</sup> It goes without saying that any obvious repeated instance of abuse or laxity in connection with the expenditure of confidential funds, if brought to the attention of Congress or the public, would undoubtedly result in a curtailment of the funds made available for confidential purposes and would seriously impair the mission of the Agency.

It is therefore of the utmost importance that each officer and employee of the Agency maintain the highest standard of individual integrity. We have attempted to spell out, in Agency Regulation [REDACTED] the policies and

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individual responsibilities required in connection with the handling of funds and you should all have had the opportunity to become acquainted with it. If, however, you have not read it up to this point, you should take the few minutes necessary, to accomplish this reading without delay.