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13 March 1964

NATIONAL COMMUNICATIONS SYSTEM

FOR COMMUNICATIONS:

1. Would like the Office of Communications to list those actions which we have taken to comply with NCS objectives or tasks regarding:

A. Equipment.

B. Installation of additional lines beyond anticipated CIA needs.

C. Hiring or placing of additional people.

D. Specific actions or participation in Tasks 2, 4, and 10 of the Initial Tasks assigned by Secretary McNamara to the Manager, NCS.

E. Information we have provided NCS regarding funding of any sort.

F. Any other information we have given NCS which would provide NCS with specific information relative to CIA.

G. Information we have given NCS regarding circuitry, trunks, switching, voice facilities, installations, instruction programs, plans, and numbers of CIA people at various posts.

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2. What percentage of Agency communications in dollars and people can be identified as cost incurred in behalf of the NCS. If it is not possible because, as we have claimed, there is no clear division between staff and clandestine communications, how did we arrive at the \$3.5 million figure back in December 1962 which we identified to Secretary McNamara as cost incurred by CIA in behalf of the NCS?

3. What actions must the Office of Communications clear with the NCS prior to implementation regarding Agency communication?

4. List what assurances we can give the NCS to indicate that we have complied with the spirit and directives of the NCS.

FOR FINANCE/BUDGET:

1. What financial information or budget information have we provided the NCS and what information do we plan to give them relative to 64-65 budgets?

2. Is it possible under the directives which Manager, NCS, have received in NSAM 252 and subsequent instructions from Secretary McNamara for the Manager, NCS, to fulfill his responsibilities if CIA does not provide him with complete budgetary and financial information relative to the NCS portion of Agency communications?

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3. Assuming that of the five alternatives which the Bureau of the Budget has suggested regarding funding of the NCS we chose Number 1 (i.e., separate appropriations to each agency), is it conceivable for the Agency to withhold budgetary information from the NCS?

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POINTS WORTHY OF NOTE

1. NSAM-252 was coordinated in draft with CIA; no objection made to wording.
2. NSAM-252, which established the NCS, indicated that the NCS would be developed "by linking together communications facilities of various Federal agencies" and that it was generally conceived the NCS would be comprised primarily of the long-haul, point to point, trunk communications.
3. Initial Tasks also coordinated with CIA without objection.
4. BOB is charged in NSAM-252 with prescribing general guidelines and procedures for reviewing financing in the NCS.

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AGENCY'S POSITION REGARDING NCS

1. On 19 February 1962 the DCI concurred in a BOB proposal of developing a single overseas telemetry system. In his memorandum to Deputy Director, Bureau of the Budget, Staats, Mr. McCone concurred in principle, subject to the understanding that the system would be operated by CIA; otherwise, as Mr. McCone said, "I do not believe that it would be possible for the Director of CIA to properly discharge his statutory responsibilities for the protection of intelligence sources and methods from unauthorized disclosure as prescribed in Section 6 of Public Law 110."

2. This same position was reiterated to the House Appropriations Committee in an unsigned memorandum, dated 21 February 1962, and delivered to the House on 16 March 1962.

3. Memorandum from Irvin to William Orrick on 9 November 1962 setting forth plans and procedures for a National Communications System; Appendix F, relating to funding for the NCS, stated that the NCS will provide global long-lines communications capability terminating at nodal points. From these nodal points, specialized nets or subsystems should emanate under the exclusive control of the operating agency. It further stated that the NCS Executive Agent should be responsible for funding capital equipment in all operating costs to all nodal points. The individual user agency should be responsible for funding all costs of the local tail from the nodal point to its terminal. Irvin went on to state that the total

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fiscal program for each year, with a breakout of funding requirements of each user and the NCS Executive Agent, should receive normal budgetary review and Presidential approval as a package and subsequently be submitted to Congress through regular agency budgets. He cautioned that the Bureau of the Budget should consider ways of highlighting the communications portions of Department or Agency budgets to insure that Congressional actions are taken with full knowledge of the impact on a national communications system.

4. On 29 November 1962 in response to a memorandum from the Deputy Director of BOB relative to a draft to develop and coordinate a world-wide communications system, the DCI concurred in principle to the desirability of establishing a proposed organization mechanism and in the concept and objectives of the proposed NCS with the proviso that the NCS enhance, not degrade, the communications capability currently available to CIA and not impair the security of a communications system. Again, he pointed out the importance to CIA of privacy of communication and his responsibility for the protection of intelligence sources and methods from unauthorized disclosure provided in Section 102 (D) (3) of the National Security Act of 1947. In addition, he added "In assessing this Agency's ability to contribute and participate, it should be recognized that a significant portion of Agency communications assets are utilized in direct support of clandestine

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operations and thus are not available for inclusion in the NCS."

5. In a meeting on 11 December 1962 with BOB personnel, Mr. Pettibone of BOB was informed that the Director's position was that CIA must control its facility for clandestine communications.

25X1 6. On 6 December 1963, CIA advised the NCS Task Officer, through [ ] that the purpose of the NCS was to link the systems together and not to make or force the individual systems into a uniform mold.

25X1 7. On 3 January 1964 in a memorandum from [ ] to the Executive Agent NCS, he pointed out that as indicated by DCI to the Secretary of Defense on 12 December 1963, CIA must keep its commitments (to the NCS) relative in size to the overall role and mission of CIA.

25X1 8. On 24 July 1963 inference made by [ ] was that Mr. Horwitz did not see DOD taking over functions or operations which were already being performed by other government agencies and that he (Mr. Horwitz) did not believe that the NCS should have a single consolidated budget, although he did express the need for the Secretary of Defense to be in position to assure the Administration that the NCS programming was coordinated.

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POSITIONS FOR CENTRALIZED FUNDING

1. On 11 December 1962 [ ] explained that the Orrick Committee at that point was accepting CIA's interpretation of the law (relative to control of its facilities) with respect to this security requirement, but that it might be necessary later to get a decision at a higher level.

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2. NSAM-252 charged that the BOB in consultation with the Special Assistant to the President for Telemetry Communications, the Executive Agent, and the Administrator of General Services would prescribe general guidelines and procedures for reviewing the financing of the NCS within the budgetary process and for preparation of budget estimates by the participating agencies.

3. See Paragraph 8 in Agency's Position Regarding NCS.

4. On 6 August 1963 Secretary McNamara assigned ten initial tasks to the Manager NCS. Task 2 stated: "Prepare simultaneously recommendations for me regarding which government department or agency should have responsibility for installation, operation, maintenance, modification (including budgeting and funding responsibility) of each subsystem or components." Task 4 requested the preparation of a near-term plan for FY 1964 budget guidance and a long-term plan for modification and improvement of NCS. Task 10 requested preparation and submission of recommended revisions as necessary in organization structure, manpower needs, and financial requirements for you to accomplish your responsibilities. This would be based on early consultation and

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coordination with the designated representatives of other agencies.

5. On 22 August 1963 in response to Secretary McNamara the DCI failed to mention any concern with the financial aspects of the NCS Manager's responsibilities, but only one of security which he felt confident could be resolved without difficulty.

6. On 25 February 1963 [ ] advised DCI that the Secretary of Defense was recommending inclusion of CIA network as a subsystem for the NCS.

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7. On 20 December 1963 in response to considerable objection from agencies' representatives to furnish budgetary information requested by the Manager NCS, Mr. May of General Starbird's Staff explained that the Administrator of the NCS in order to do an adequate job should know the value of his assets and the cost of his operations. The DCA representative stated that as a long-range goal the NCS might be operated with a single budget and the using agencies would file requirements. The privacy question was also challenged.

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Longer-term alternatives

The longer-term financing approach adopted should support the basic NCS objective of improving management of Federal communications resources. It should also provide flexibility to meet operational needs and consistency in treatment of NCS customers.

In addressing the alternatives, several basic questions will have to be considered:

a. Should agencies pay for their own communications? It has been general Bureau policy that, to the extent practicable, user agencies should pay for services received. In this way, communications requirements are weighed and screened against other requirements by the agency involved.

b. If agencies are charged for NCS services, should the charges reflect full cost on a message basis or gross allocations of cost based on sampling of traffic volume? A detailed and comprehensive accounting system for NCS to support billing on a message basis could add significantly to total Government communications costs. For example, the Bell System accounting and billing costs run an estimated 5% of total revenues, (and it is possible that Government costs for this purpose would exceed this rate).

c. What degree of centralized financial control should be exercised over the NCS? If significant progress toward the goal of a single communi- <sup>WHOSE GOAL?</sup> **ILLEGIB** cations system is to be made, a major degree of financial centralization seems desirable.

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d. What kind and amount of information is required to enable the President (and the Congress) to be informed of NCS progress in an accurate and timely fashion? The President and the Special Assistant, as well as the Executive Agent will need to know the status of the NCS tasks assigned to the agencies.

We are continuing to examine, with OBR and staff of other Divisions, alternative methods of financing the NCS which might be appropriate for the longer term. Five principle alternatives are as follows. (Discussion of the pros and cons based on preliminary analysis are set forth in the attachment.)

1. Retain present agency funding patterns with slight adjustments in operational and budgeting responsibilities based on the NCS planning process. This approach to the NCS would be similar to present Defense practice with respect to the DCS. The pattern would include direct appropriations to agencies operating their own communications and to agencies who reimburse GSA and other agencies (the latter category would be expected to grow).

2. Establish a single appropriation to the President for building and operating the NCS, reducing agency appropriations accordingly. Allocations might be made by the Bureau, on recommendation of the Executive Agent to the agencies operating networks.

3. Establish a single appropriation to the Executive Agent reducing agency appropriations accordingly.

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4. Establish a revolving fund administered by the Executive Agent from which the NCS would be built and operated. Agencies would reimburse the fund for services received.

5. Establish a management fund into which agencies at the beginning of each fiscal year would transfer funds appropriated to them for communications to be satisfied through the NCS. The fund would be administered by the Executive Agent.

Conclusion and recommendations

We are not in a position to recommend major NCS funding changes in the 1965 budget. The NCS definition has not yet been determined, and we have not yet pulled together a complete picture of operating and costing practices for the various possible components of NCS. With experience gained in developing the initial NCS definition, the Near Term 1965 Plan, the 1965 budget, and the first Long-Range Plan (due April 1, 1964), the Bureau should be in a position to make a more complete assessment in time to be reflected in the 1966 budget. Any major change will have to be worked out carefully with a large number of Executive Agencies and checked informally with the Appropriations and other interested Committees.

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Attachment

Preliminary Analysis of Five Alternative

Approaches to Funding the NCS

The analysis summarized below attempts to sketch the pros and cons involved in five main alternatives for financing the National Communications System (NCS) over the long-term. This is based upon a preliminary assessment of the problem and is designed to aid in the further consideration of the alternatives.

Alternative 1

Retain present agency funding patterns with slight adjustments in budgeting responsibilities based on the NCS planning process. This is similar to the approach now employed with respect to the Defense Communications System (DCS), where DCA "tasks" the Services with building, operating, and funding various portions of the DCS. Under this alternative, each agency would develop its funding requirements (for approval in the NCS planning process) and would seek appropriations from Congress in the normal manner. It would include direct appropriations to agencies operating their own communications and to agencies who reimburse GSA and others for services. It would be expected that GSA services through the FTS would continue to grow.

Pros. This is the simplest solution. It would cause the least disturbance to the existing appropriation structures and agency relationships with the Congress. With adequate cost reporting and centralized

management review, this approach might work for some time.

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Cons. This pattern would tend to leave more control over communications programming with the operating agencies. The NCS would probably tend to remain for a longer period a loose confederation of agency networks, like the DCS, and the evolution to centralized management would tend to <sup>be</sup> prolonged. <sup>IS THIS A GOAL</sup> As an example, it would be harder to prevent agency reprogramming of funds budgeted for essential NCS tasks to other purposes. Also, agencies might resist absorbing additional NCS tasks dropped by another agency through reprogramming or cut by Congress. Certainly the general task of following the implementation of the NCS program through many agencies and appropriations will be more difficult for the Bureau and other NCS review agencies. Also, present inconsistencies in charges to other agencies for communications services (as between Defense and GSA) might tend to be continued.

#### Alternative 2

Establish a single appropriation to the President for building and operating the NCS, reducing agency appropriations accordingly. Funds could be allocated to the implementing agencies by the Bureau, on recommendation of the Executive Agent and approval of the President in the same way that foreign aid appropriations are handled.

Pros. This would emphasize the national character of the system and its responsiveness to the needs of the President. It would provide a given amount of funds for the NCS and give central authorities flexibility in managing the system, specifically in adjusting to congressional actions

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or emergencies and new requirements. Only one set of congressional appropriations committees would be involved.

Cons. It might be difficult to obtain congressional approval for the single appropriation. Certain subcommittees of the Appropriations Committees would lose control over communications programs. Defense and other agencies would object to having communications funds separated from the rest of their communications and other programs. It might be more difficult to keep stated user requirements at a rational level when the user has no funding, management, or congressional justification responsibilities. A complex reporting system might be required. In addition, there might be legal difficulties with this approach, where statutory authorities are vested with various agency heads, rather than the President (the appropriation might be subject to a point-of-order).

### Alternative 3

Establish a single appropriation to the Executive Agent for building and operating the NCS, reducing agency appropriations accordingly. The Executive Agent would develop a program, cost it, and request funds from Congress. He could then obligate the funds directly or request other agencies to undertake specific tasks for which funds would be allocated. Allocations might be made by the Executive Agent subject to review by the Special Assistant and the Bureau of the Budget and approval of the President.

Pros. This approach would have approximately the same advantages

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as listed under 2 above. The detailed funding control and reporting system would be administered by the Executive Agent.

Cons. Placing the single appropriation for the NCS with the Executive Agent, who normally has about 80% of the total anyway, would probably reduce some objections to the single appropriation. However, the Services would probably object to a single centralized appropriation to Defense for their long-haul communications which are in the DCS and the NCS. Other agencies, especially GSA, and some members of Congress might object to giving the Secretary of Defense this additional control over communications of civil agencies. The problem of keeping user agency requirements within bounds, where the agencies have no financial responsibilities, would also be a problem. In addition, this alternative might involve the legal difficulties cited under 2 above and might involve conflict with GSA's authorities to provide and operate communications services for certain civil agencies.

Alternative 4

Establish a revolving fund for the NCS to be administered by the Executive Agent. Agencies would continue to seek appropriations for their communications needs and reimburse the fund for services received. GSA's Federal Telecommunications fund is an example of this type of operation.

Pros. The revolving fund, with the necessary working capital, would provide the desired flexibility in planning and undertaking improvements to the system in advance of the actual need and meeting unforeseen

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contingencies. It would insure centralized financial management and consistency in treatment of NCS users. Since commercial-type accounting is required, it would permit both Congress and the executive branch to review the financing of the system as a whole and to know the financial status of the NCS on a profit-loss basis.

Cons. The use of a revolving fund implies that the Executive Agent would provide all services to the users, thereby shifting the responsibility for operating communications systems from various user agencies to a single agency. The administrative difficulties of such a take over would be immense. The records and accounting necessary to bill the users accurately could be very complex and costly. The revolving fund would have to be established in law and would have to be reconciled to present GSA authorities and the Federal Telecommunications fund. The initial working capital appropriation required would probably be \$200-\$400 million, which might be difficult to obtain.

*HOW ABOUT PRIORITIES — WHAT IF INDIVIDUAL AGENCY  
COULD MORE EFFECTIVELY AND ECONOMICALLY HANDLE ITS OWN COMM.*  
Alternative 5

Establish a management fund in to which agencies would at the beginning of each fiscal year transfer appropriations to them for communications services to be furnished through the NCS. The Executive Agent would administer the fund, assign funding responsibilities to the user agencies for various tasks, and assist the agencies in justifying the funds requested from Congress. The Navy Special Projects Office has operated such a fund for the Polaris system, into which were transferred appropriations for research and development, shipbuilding, and missile procurement.

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Pros. With a management fund, there would be little change in agency relationship with the Congress. There would be considerable flexibility in administration of the NCS program so that the various parts could go forward in balance. There would also be opportunity for centralized management and review of the status of the program. The contributing agencies would still have some financial stake in the NCS.

Cons. A large number of congressional committees would be involved in the program, each of which might be able to cut vital parts of the program. The Executive Agent would require a fairly large staff to control funds contributed from many types of appropriations (which would include mixtures of no-year and annual funds, and various language limitations). The present agency reporting systems would probably have to be standardized. The management fund would probably have to be established in an appropriation act.

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