

# UKRAINE ASSISTANCE

## Actions Needed to Properly Value Defense Articles Provided under Presidential Drawdown Authority



Report to Congressional Addressees

July 2024

GAO-24-106934

United States Government Accountability Office

Accessible Version

# GAO Highlights

View [GAO-24-106934](#). For more information, contact Kristen Kociolek at (202) 512-2989 or [kociolekk@gao.gov](mailto:kociolekk@gao.gov).  
Highlights of [GAO-24-106934](#), a report to congressional addressees

July 2024

## UKRAINE ASSISTANCE

### Actions Needed to Properly Value Defense Articles Provided under Presidential Drawdown Authority

#### Why GAO Did This Study

In 2023, DOD notified Congress that it had misvalued certain defense articles provided under PDA to Ukraine by about \$6.2 billion, in total. This amount was subsequently still available for use as PDA assistance.

The Consolidated Appropriations Act, 2023 included a provision for GAO to conduct oversight, including audits and investigations, of amounts appropriated in response to the war-related situation in Ukraine. Also, we were asked to review DOD's accounting of all defense articles provided to Ukraine under PDA. This report examines the extent to which the methods DOD used to value defense articles provided to Ukraine under PDA have been consistent with DOD guidance, among other objectives.

GAO reviewed DOD guidance and interviewed DOD officials. GAO also selected a statistical sample of line-item records of defense articles provided to Ukraine under PDA to estimate the extent to which the valuation methods used aligned with DOD guidance.

#### What GAO Recommends

GAO is recommending that Congress consider clarifying the definition of "value" as it relates to defense articles provided under PDA. GAO is also making seven recommendations to DOD, including that it update guidance to include a PDA-specific valuation section and develop component-specific valuation procedures for PDA. DOD concurred with all seven recommendations and cited actions it will take to address them.

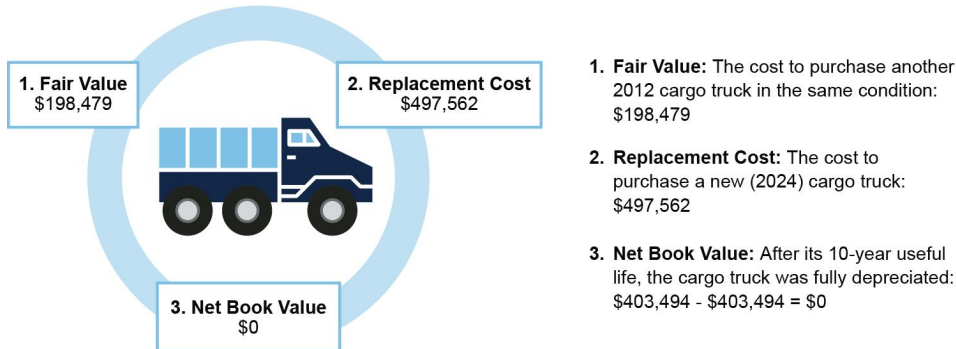
#### What GAO Found

Presidential Drawdown Authority (PDA), as authorized in the Foreign Assistance Act of 1961, enables the President to direct the drawdown of defense articles and services from U.S. agencies' stocks to respond to foreign crises. Drawdown defense articles are primarily supplied by the Department of Defense (DOD) and may include articles such as ammunition, vehicles, clothing, and medical equipment. From August 2021 through March 2024, the President used PDA to authorize almost \$24 billion in drawdowns for Ukraine.

GAO found that DOD's efforts to properly value defense articles for drawdown are hampered because the Foreign Assistance Act does not clearly define certain terms and DOD lacks PDA-specific valuation guidance. First, the Foreign Assistance Act is not clear on the definition of "value" or the purpose of the maximum aggregate value as they relate to articles provided under PDA. This affects DOD's ability to establish clear guidance for valuing defense articles under PDA. Second, though DOD has accounting policy for valuing defense articles, it is not specific to valuation for PDA purposes. Not having specific guidance on methods for valuing articles provided under PDA affects the values given to those articles (see figure). As a result, DOD cannot have assurance that the articles will be valued accurately, which may result in a miscalculation of the remaining presidential determination authorization amount.

#### Comparison of Values Derived from Different Valuation Methods

Depending on the valuation method used, the value of a 6x6 cargo truck with a useful life of 10 years purchased in 2012 for \$403,494 will vary.



Source: GAO. | GAO-24-106934

At the DOD component level, GAO found that some components did not consistently follow DOD's accounting policy as instructed when valuing defense articles for PDA. GAO estimates that about 12 percent of all defense articles provided to Ukraine under PDA were valued using methods that did not comply with DOD guidance and may need to be revalued. Moreover, GAO estimates that about 61 percent of the reported values do not have appropriate supporting documentation, which leads to the inability to verify the valuation. Without component-specific procedures to ensure that the methods used comply with DOD guidance and are appropriately documented, DOD cannot ensure that the values are accurately calculated across the components for PDA purposes.

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**Abbreviations**

DOD	Department of Defense
DSCA	Defense Security Cooperation Agency
EXORD	execute order
FMR	<i>Financial Management Regulation</i>
OM&S	operating materials and supplies
OUSD	Office of the Under Secretary of Defense
PDA	Presidential Drawdown Authority
PD Tracker	Presidential Determination Tracker
SAMM	<i>Security Assistance Management Manual</i>

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July 22, 2024

Congressional Addressees

Russia’s full-scale invasion of Ukraine in February 2022 has had devastating consequences, threatening a democratic country’s sovereignty and creating a humanitarian crisis in Europe. Since August 2021, several months before the start of this invasion, the United States has been providing defense articles<sup>1</sup> and services to Ukraine under Presidential Drawdown Authority (PDA), as authorized in the Foreign Assistance Act of 1961, as amended (Foreign Assistance Act).<sup>2</sup> PDA enables the President to direct the drawdown of defense articles and services from stocks of U.S. government agencies to respond to U.S. foreign policy and national security objectives, such as unforeseen military and nonmilitary emergencies, up to a cap established in law, without first seeking additional legislative authority or appropriations from Congress. Drawdown defense articles are primarily sourced from the stocks of the Department of Defense (DOD) and may include articles such as ammunition, vehicles, spare parts, clothing, and medical equipment.

According to U.S. Department of State officials, the PDA used for Ukraine is primarily authorized under section 506(a)(1) of the Foreign Assistance Act. The maximum aggregate value of drawdowns under this section historically cannot exceed \$100 million in any fiscal year.<sup>3</sup> However, in support of the Ukraine assistance effort, Congress increased the cap on this drawdown authority from \$100 million to \$11 billion for fiscal year 2022, \$14.5 billion for fiscal year 2023, and \$7.8 billion for fiscal year 2024.<sup>4</sup> As of March 2024, the President had authorized almost \$24 billion in drawdowns against this PDA for Ukraine. Additionally, Congress has

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<sup>1</sup>In this report, “defense articles” refers to general equipment, inventory, stockpile materials, and operating materials and supplies, such as ammunition and missiles.

<sup>2</sup>Section 506 (formerly section 510) of the Foreign Assistance Act of 1961, Pub. L. No. 87-195, 75 Stat. 424, 437 (Sept. 4, 1961), *codified as amended at* 22 U.S.C. § 2318, grants the President this special authority. Certain authorities in the Foreign Assistance Act of 1961 enable the President to draw down articles and services from the inventory and resources of U.S. government agencies. Section 506(a)(1) authorizes the President to draw down defense articles from the stocks of the Department of Defense (DOD), defense services of DOD, and military education and training to a foreign country or international organization in emergency situations. Section 506(a)(2) authorizes the President to draw down defense articles and services from the inventory and resources of any U.S. government agency and military education and training from DOD and use them to assist foreign countries or international organizations in certain nonemergency situations. Section 506(a)(3) authorizes the President to draw down defense articles from the stocks of DOD, defense services of DOD, and military education and training to Taiwan. Section 552(c)(2) authorizes the President to direct the drawdown of commodities and services from the inventory and resources of any U.S. government agency for the purpose of carrying out peacekeeping operations. 22 U.S.C. § 2348.

<sup>3</sup>22 U.S.C. § 2318(a)(1).

<sup>4</sup>See Additional Ukraine Supplemental Appropriations Act, 2022, Pub. L. No. 117-128, title V, § 501, 136 Stat. 1211, 1221 (May 21, 2022); Consolidated Appropriations Act, 2023, Pub. L. No. 117-328, title VII, § 1701, 136 Stat. 4459, 5198 (Dec. 29, 2022); and Ukraine Security Supplemental Appropriations Act, 2024, Pub. L. No. 118-50, div. B (Apr. 24, 2024).

appropriated more than \$174 billion under five Ukraine supplemental appropriations acts as of May 2024.<sup>5</sup> U.S. agencies have allocated a portion of the supplemental funding for certain security assistance to Ukraine, to help Ukraine combat Russian aggression and preserve its territorial integrity.<sup>6</sup>

In May and June 2023, according to DOD officials, DOD notified Congress that it had misvalued ammunition, missiles, and other defense articles provided under PDA to Ukraine in fiscal years 2022 and 2023 by about \$2.6 billion and \$3.6 billion (\$6.2 billion total), respectively. The misvaluation was primarily the result of DOD valuing some of the defense articles it sent to Ukraine using the cost to replace the articles (replacement cost) rather than the value of the articles at the time of the drawdown. Consequently, because of the misvaluation, DOD determined that \$6.2 billion of previously announced PDA assistance for Ukraine was still available for use.<sup>7</sup>

The Consolidated Appropriations Act, 2023 included a provision for GAO to conduct oversight, including audits and investigations, of amounts appropriated in response to the war-related situation in Ukraine. Also, we were asked to review DOD's accounting of all defense articles provided to Ukraine under PDA.<sup>8</sup> This report examines the extent to which DOD's methods used to value defense articles provided to Ukraine under PDA have been consistent with (1) relevant DOD guidance and (2) the methods DOD has used to value defense articles provided to other recipients under PDA.

For both objectives, we reviewed DOD guidance, such as the Defense Security Cooperation Agency's (DSCA) *Security Assistance Management Manual* (SAMM) and the Office of the Under Secretary of Defense (OUSD) (Comptroller)'s *Clarification of Presidential Drawdown Authority Valuation of Defense Articles* (March 31, 2023) memorandum. We interviewed officials from DOD and selected DOD components to gain an understanding of the processes, guidance, and methods used to value defense articles provided to Ukraine and other recipients under PDA. For our review, we selected DOD components that provided defense articles under PDA: Department of the Army, U.S. Navy, U.S. Marine Corps, Department of the Air Force, and U.S. Special Operations Command.

For our first objective, we selected a statistical sample of 291 line-item records of defense articles (hereafter referred to as records) from a population of 3,786 records of nonclassified defense articles provided to Ukraine

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<sup>5</sup>The more than \$174 billion appropriated does not include amounts authorized for the provision of PDA assistance. It does include the amounts appropriated for DOD to replace stocks and services provided in those drawdowns. The five Ukraine supplemental appropriations acts are Consolidated Appropriations Act, 2022, Pub. L. No. 117-103, Div. N, 136 Stat. 776 (Mar. 15, 2022); Additional Ukraine Supplemental Appropriations Act, 2022, Pub. L. No. 117-128, 136 Stat. 1211 (May 21, 2022); Continuing Appropriations and Ukraine Supplemental Appropriations Act, 2023, Pub. L. No. 117-180, 136 Stat. 2114 (Sept. 30, 2022); Consolidated Appropriations Act, 2023, Pub. L. No. 117-328, Div. M, 136 Stat. 5189 (Dec. 29, 2022); and Ukraine Security Supplemental Appropriations Act, 2024, Pub. L. No. 118-50, div. B (Apr. 24, 2024).

<sup>6</sup>DOD defines security assistance, which includes PDA, as a group of programs, authorized under Title 22 of the U.S. Code, by which the U.S. government provides defense articles, military education and training, and other defense-related services to eligible foreign governments by grant, loan, credit, cash sales, or lease in furtherance of national policy or objectives. Department of Defense, *Security Assistance Management Manual*, ch. 1, C1.1.2.2, accessed April 15, 2024, <https://samm.dsca.mil/chapter/chapter-1>.

<sup>7</sup>According to Defense Security Cooperation Agency officials, DOD components also identify remaining authorities through routine reconciliations, such as when comparing the estimated values of defense articles that will be provided under PDA to the actual values of articles delivered.

<sup>8</sup>Consolidated Appropriations Act, 2023, Pub. L. No. 117-328, div. M, title VI, 136 Stat. 4459, 5195.

as of September 26, 2023. For this sample, we compared the methods used to value the articles against the methods listed in the relevant guidance.

For our second objective, Taiwan was the only recipient other than Ukraine for which new presidential determinations were issued after the March 31, 2023, memorandum until the end of fiscal year 2023. Therefore, we selected all 19 records of defense articles provided to Taiwan under PDA as of August 3, 2023, all of which were nonclassified. We compared the methods used to value defense articles provided to Ukraine against those used to value articles provided to Taiwan. To assess the reliability of the data in the records, we conducted validity checks and interviewed DOD officials. Our scope and methodology are discussed in more detail in appendix I.

We conducted this performance audit from June 2023 to July 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

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### Presidential Drawdown Authority

Unlike other forms of foreign assistance, PDA does not involve the appropriation of new funds for purchasing defense articles that will be provided to foreign recipients or the allocation of new funds to existing contracts (except for transportation and related services where new contracts would be more cost effective than DOD providing the service itself). Rather, DOD components take the defense articles from on-hand inventories and cover the costs of the drawdown, such as transportation, using existing appropriations—typically from their operation and maintenance accounts.<sup>9</sup>

Since the Foreign Assistance Act was enacted in 1961, PDA has been used to authorize assistance to approximately 80 foreign recipients across Europe, Asia, Africa, and North and South America.<sup>10</sup> PDA was first used in 1963, with the authorization of assistance to India in its war with China. Although that assistance was authorized in the amount of \$55 million, no defense articles or services were ultimately provided to India. In 1965, South Vietnam received the first assistance under PDA, with an authorization amount of \$75 million.

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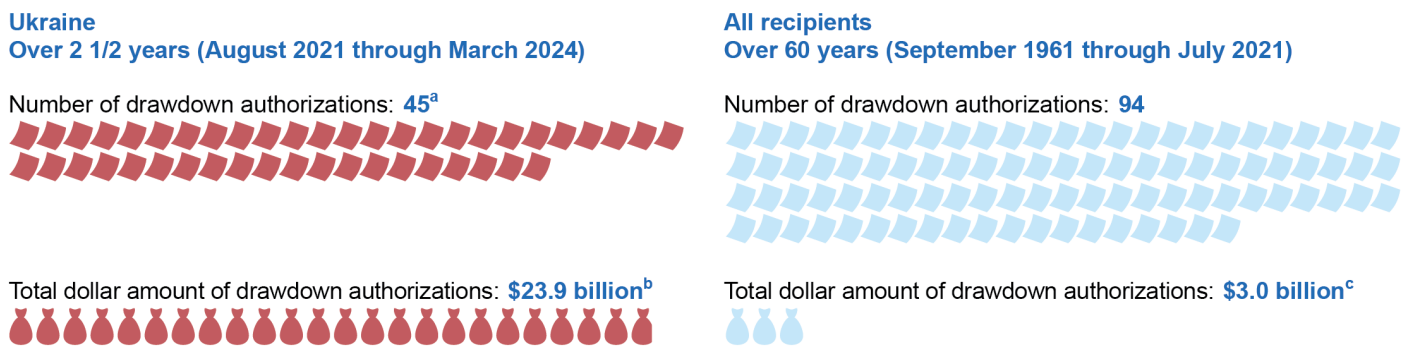
<sup>9</sup>Since the February 2022 invasion of Ukraine, DOD has also relied in part on the Ukraine Security Assistance Initiative, a program authorized in 2015, to help Ukraine address its capability gaps and enhance its capacity to defend itself from further Russian aggression. National Defense Authorization Act for Fiscal Year 2016, Pub. L. No. 114-92, title XII, subtitle E, § 1250, 129 Stat. 726, 1068 (2015). The Ukraine Security Assistance Initiative funding has been used for procuring equipment for Ukraine, as well as transportation, maintenance, and sustainment of equipment provided under other authorities, such as PDA.

<sup>10</sup>Additional recipients have also been authorized presidential drawdowns under acts other than the Foreign Assistance Act. For example, in 1993 a drawdown to Laos under the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1993, supported recovery of prisoners of war and military service members missing in action. Pub. L. No. 102-391, § 515A, 106 Stat. 1633, 1684 (1992). Additionally, a drawdown to the Iraqi National Congress in 1999 under the Iraq Liberation Act of 1998 supported training for Iraqi opposition forces. Pub. L. No. 105-338, § 4, 122 Stat. 3178, 3179 (1998).



Although PDA has been used numerous times over the past 6 decades, the extent of support supplied to Ukraine under this authority—in terms of volume, frequency (approximately 2-week cycles), and total value—is unprecedented. For example, as seen in figure 1, in less than 3 years, from August 2021 through March 2024, the President issued 45 determinations authorizing the drawdown of articles and services to Ukraine valued at almost \$24 billion in total (about \$24.5 billion when adjusted for inflation to fiscal year 2023 constant dollars).<sup>11</sup> By contrast, over 60 years, from September 1961 through July 2021, 94 determinations were issued, totaling approximately \$3 billion (about \$8.5 billion when adjusted for inflation to fiscal year 2023 constant dollars).

**Figure 1: Comparison of Volume and Dollar Amounts of Presidential Drawdown Authorizations Before and After the Invasion of Ukraine**



Source: GAO analysis of information from the Federal Register and a prior GAO report. | GAO-24-106934

<sup>a</sup>From August 2021 through March 2024, three additional drawdowns were authorized to other recipients: Lebanon (\$47 million), Taiwan (\$345 million), and Haiti (\$10 million). These drawdown authorizations are not included in this figure.

<sup>b</sup>Total amount is \$24.5 billion when adjusted for inflation to fiscal year 2023 constant dollars.

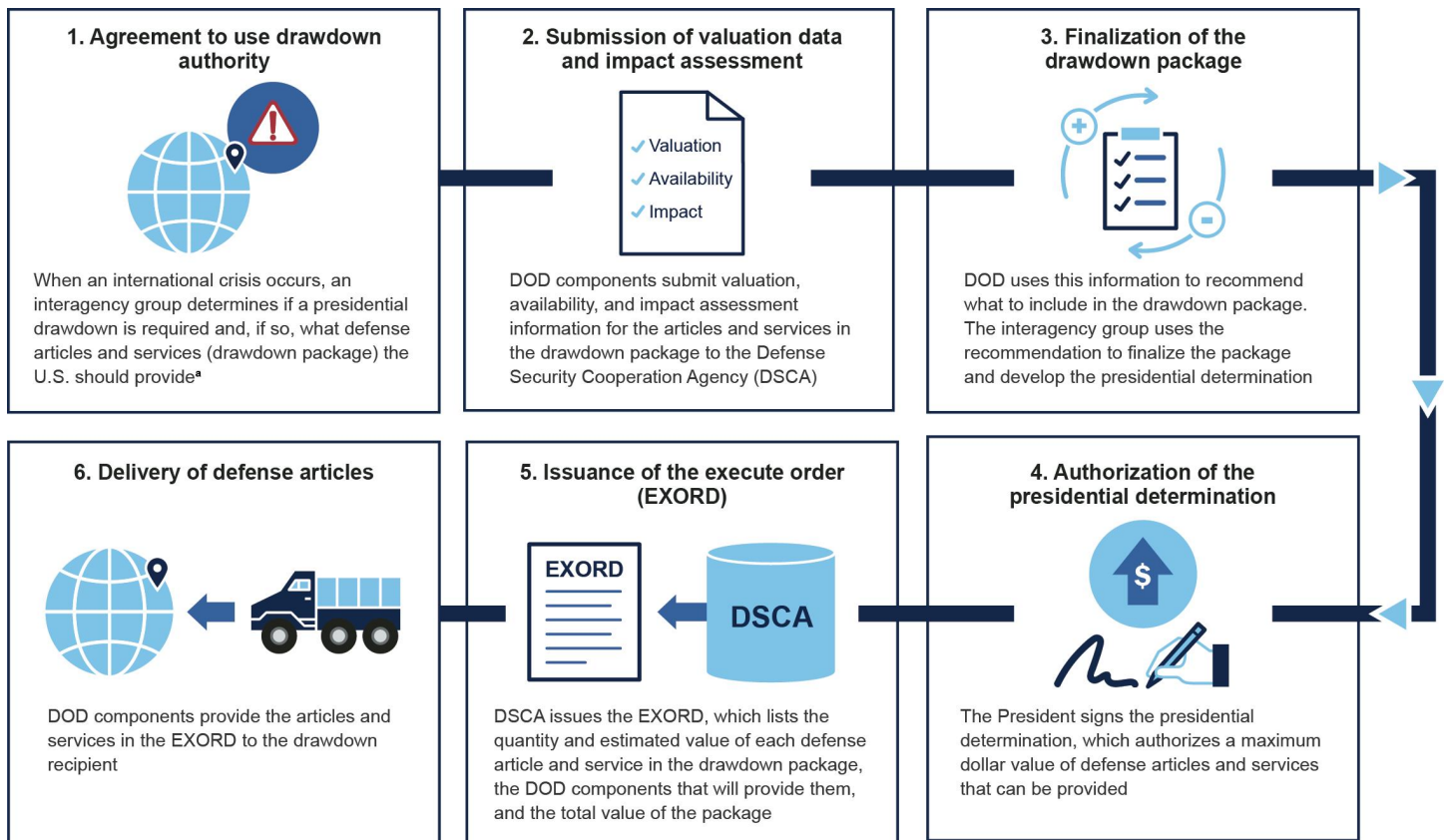
<sup>c</sup>Total amount is \$8.5 billion when adjusted for inflation to fiscal year 2023 constant dollars.

## Process for Presidential Drawdowns

Although the Ukraine presidential drawdown process has evolved to something uniquely suited to accommodate the unprecedented volume and scope, the general process involves six steps (see fig. 2).

<sup>11</sup>A presidential determination is a determination made by the White House that results in an official policy or position of the executive branch. Presidential determinations must be reported to Congress, as directed by the President. U.S. Agency for International Development, *Working Effectively with the Executive Secretariat (ES): A Guide for Agency Staff* (Nov. 2014).

**Figure 2: DOD Process for Presidential Drawdowns of Defense Articles**



Source: GAO analysis of Department of Defense (DOD) information. | GAO-24-106934

\*The interagency group includes the Department of State, the National Security Council, DOD, and other federal agencies as required.

Specifically, the general process for providing defense articles and services for a presidential drawdown involves the following:

- 1. Agreement to use drawdown authority.** When an international crisis occurs, the U.S. Department of State, the National Security Council, DOD, and other federal agencies as required (hereafter referred to as the interagency group) determine whether a presidential drawdown is required. If so, the interagency group determines what statutory authority applies and what defense articles and services the U.S. government should provide under PDA. This list of defense articles and services is the drawdown package.
- 2. Submission of valuation data and impact assessment.** DSCA requests DOD components to indicate which defense articles and services in the drawdown package they have available and provide the estimated value of each. DOD components also submit impact assessments, which provide information on the long-term risks that they must assume—including readiness implications—if they provide the defense articles under PDA.
- 3. Finalization of the drawdown package.** DOD uses the information DOD components provided in step 2 to formulate a recommendation to the interagency group on what defense articles and services to provide as part of the drawdown package. The interagency group uses DOD’s recommendation to finalize the

drawdown package and develop the presidential determination.<sup>12</sup> The presidential determination authorizes an aggregate maximum dollar value of defense articles and services to be provided in the drawdown package and specifies the statutory authority under which the drawdown will be performed.

4. **Authorization of the presidential determination.** The Department of State prepares and sends a memorandum of justification and the proposed presidential determination to the President for signature. The Executive Office of the President reviews the memorandum and presidential determination and directs the Department of State to notify Congress of the President's intent to use PDA. The President signs the presidential determination.

5. **Issuance of the execute order (EXORD).** After the presidential determination is signed, the State Department formally requests DOD to execute a drawdown based on the finalized drawdown package. Once DSCA receives the State Department request and other administrative requirements are met, DSCA issues the EXORD. The EXORD identifies (1) the DOD component responsible for providing the listed defense articles and services, (2) the quantity and estimated value of each article and service to be provided, and (3) the total value of the articles and services. Additionally, the EXORD notes that there is no authority to exceed the total dollar value authorized by the presidential determination.

6. **Delivery of defense articles.** DSCA releases the EXORD to the DOD components, which work with other DOD entities, such as the Joint Chiefs of Staff and U.S. Transportation Command, to formulate a plan and provide the approved defense articles and services to the recipient.

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## DOD Guidance on Valuation

As explained above, DOD components provide estimated values for the defense articles included in a drawdown package. These values are used to prepare the presidential determination amount and to ensure that the total value of each drawdown does not exceed the total dollar value authorized by the presidential determination. These values do not affect financial statement reporting. Prior to March 31, 2023, according to DOD component officials, DOD components valued these articles using replacement cost, which they stated was in accordance with DOD's *Financial Management Regulation* (FMR), volume 15, chapter 7, "Pricing."<sup>13</sup> Further, DOD component officials stated that the SAMM directed the use of this chapter of the FMR for valuing defense articles.

On March 31, 2023, OUSD (Comptroller) issued a memorandum stating that replacement cost should not be used to determine the value of defense articles provided under PDA. According to OUSD (Comptroller) officials, use of replacement cost to value defense articles provided under PDA does not align with statutory requirements under the Foreign Assistance Act. The March 2023 memorandum clarified that such articles should be valued in accordance with volume 4 of the FMR (hereafter referred to as the FMR accounting

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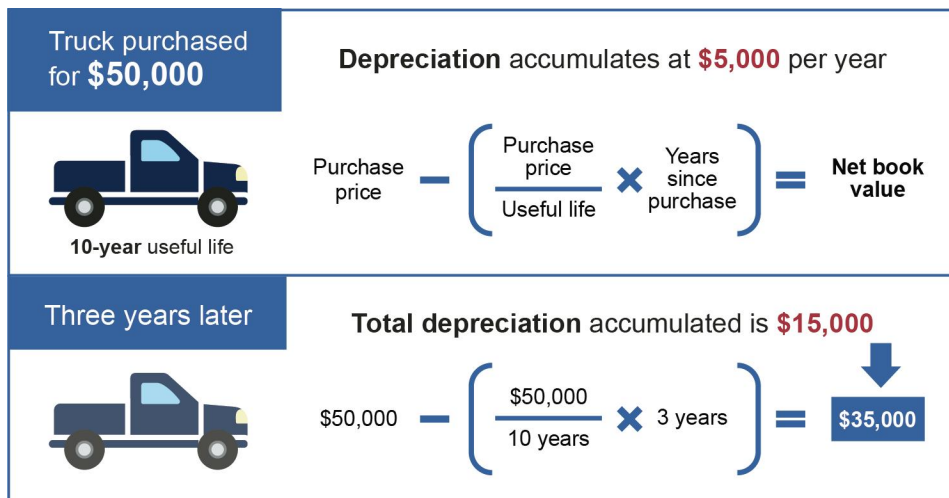
<sup>12</sup>The interagency review of the drawdown package may take several iterations of additional requests for information to DOD components if the interagency group identifies issues or concerns with the desired defense articles and services (e.g., insufficient quantity to meet need, negative impact to readiness, or end-use monitoring) and as DOD components propose possible alternatives.

<sup>13</sup>The DOD FMR, 7000.14-R, is issued by OUSD (Comptroller) and provides DOD policy on statutory and regulatory financial management requirements, systems, and functions for all appropriated and nonappropriated working capital, revolving, and trust fund activities.

policy).<sup>14</sup> Under the FMR accounting policy, which describes valuation of items for financial statement reporting purposes, the method used to value items depends on the type of item being valued. Two such types of items are general equipment and operating materials and supplies (OM&S).

**General equipment.** These are items that are used to provide goods and services (e.g., vehicles, and ships). The FMR accounting policy requires DOD components to use historical cost, less depreciation, referred to as net book value, when determining the value of general equipment (see fig. 3).<sup>15</sup>

**Figure 3: Example of a Net Book Value Calculation**



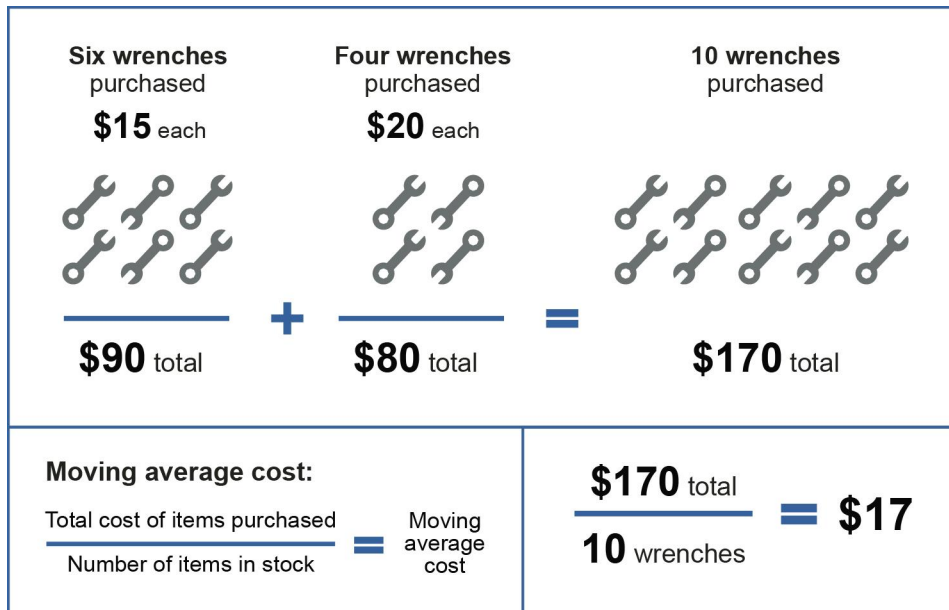
Source: GAO. | GAO-24-106934

**OM&S.** These are items that are consumed in normal operations, such as spare parts, ammunition, and missiles. The FMR accounting policy describes different methods for valuing OM&S. One such method is moving average cost. Under this method, as seen in figure 4, the value of an item is an average cost that is recalculated each time additional purchases of that item are made, or when items are repaired and returned to inventory.

<sup>14</sup>DOD FMR, vol. 4, ch. 4, “Inventory and Related Property” (Nov. 2017), and vol. 4, ch. 25, “General Equipment” (May 2019). The SAMM was subsequently updated to align with the March 2023 memorandum and direct DOD components to the FMR accounting policy to value articles provided under PDA.

<sup>15</sup>Historical cost includes all appropriate purchase, transportation, and production costs incurred to bring items to their current condition and location. DOD FMR, vol. 4, ch. 4, “Inventory and Related Property,” 2.13 (Nov. 2017). Depreciation is the allocation of the cost of an asset over its estimated life. FMR, vol. 4, ch. 25, “General Equipment,” 2.62 (May 2019).

**Figure 4: Example of a Moving Average Cost Calculation**



Source: GAO. | GAO-24-106934

As a supplement to the March 2023 memorandum, on June 1, 2023, OUSD (Comptroller) issued a second memorandum clarifying that alternative valuation methods (also called deemed cost methods) for valuing defense articles provided under PDA are acceptable.<sup>16</sup> Though the June 2023 memorandum did not specify which alternative methods could be used, according to the FMR accounting policy, examples of alternative valuation methods include latest acquisition cost (the last price paid for an item) and fair value (the amount that would be paid for the item in a transaction between a buyer and a seller).

After the issuance of the March 2023 and June 2023 memorandums, OUSD (Comptroller) instructed DOD components to review the valuation methods that they had used to calculate the presidential determination amounts from August 27, 2021, to May 3, 2023. If necessary, the DOD components were to recalculate the values using the FMR accounting policy.

## DOD Lacks PDA-Specific Guidance, and DOD Components Are Not Consistently Following Valuation Guidance for Defense Articles

We found that the Foreign Assistance Act is not clear on either its definition of “value” or the intended purpose of the maximum aggregate value as it relates to PDA, and that DOD’s FMR accounting policy does not include valuation guidance specific to PDA. Additionally, DOD components have not consistently followed guidance

<sup>16</sup>Department of Defense, Office of the Undersecretary of Defense (Comptroller), *General Business Rules for Use of Drawdown Authority and Replacement of Items and Reimbursement for Services Provided under Drawdown Authority*, Memorandum for Assistant Secretaries of the Military Departments (Financial Management and Comptroller); Assistant Secretary of the Army (Acquisition, Logistics, and Technology); Assistant Secretary of the Navy (Research, Development, and Acquisition); Assistant Secretary of the Air Force for Acquisition, Technology, and Logistics; Defense Agency Chief Financial Executives, and Defense Agency Chief Acquisition Executives (June 1, 2023). Alternative valuation methods are described in DOD’s FMR, vol. 4, chs. 4 and 25, annex 2.

when valuing defense articles provided under PDA or maintaining documentation. Further, DSCA has not documented its procedures for maintaining presidential drawdown valuation data.

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## Foreign Assistance Act Does Not Clearly Define “Value,” and DOD Lacks PDA-Specific Valuation Guidance

DOD components’ efforts to properly value defense articles for drawdown are hampered by an underlying lack of clarity in the Foreign Assistance Act and absence of PDA-specific guidance from DOD.

- **Foreign Assistance Act does not clearly define “value” or the purpose of maximum aggregate value.** For example, the Foreign Assistance Act defines “value” for nonexcess defense articles delivered from inventory as the acquisition cost, adjusted as appropriate for condition and market value.<sup>17</sup> However, the act is not clear about what is meant by “appropriate,” or “market value” or how such adjustments to acquisition cost should be made. According to a DOD official, because some articles, such as weapon systems, can be proprietary to a single manufacturer, determination of a market value for these articles is subjective, which could affect the assigned values.

Further, as previously described, PDAs are subject to a cap, which is defined as “an aggregate value not to exceed” the amount established in the law. However, the Foreign Assistance Act does not state the intended purpose of that maximum aggregate value.<sup>18</sup> According to DOD officials, the agency’s selection of the correct valuation method depends on the intended purpose of the maximum. For example, if the purpose of the maximum is to monitor funding that will be needed to replace defense articles transferred under PDA, the proper valuation method may be replacement cost. If, however, the purpose is transparency to taxpayers about the value of these articles, fair value may be a better choice.

- **DOD lacks PDA-specific guidance.** The FMR accounting policy does not specifically address methods for valuing defense articles provided under PDA. As previously explained, values of defense articles provided under PDA are used only to develop the presidential authorization amount and do not affect financial statement reporting. However, values derived using the FMR accounting policy are used for financial statement reporting. Based on discussions with DOD officials, we found that using the same valuation methods may not meet the differing purposes of PDA and financial statement reporting.

Given the lack of clear, PDA-specific valuation guidance, some DOD components follow some, but not all, aspects of the FMR accounting policy. For example, several DOD component officials stated that although many of the defense articles provided to Ukraine were past their useful life—and thus, according to the FMR accounting policy, would have a net book value of zero dollars—they valued these articles at greater than zero dollars.<sup>19</sup>

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<sup>17</sup>According to the Foreign Assistance Act, the “value” of an excess defense article in a PDA context is its actual value (which the act does not define) plus the gross cost incurred by the U.S. government in repairing, rehabilitating, or modifying the article. For nonexcess defense articles delivered from new procurement to foreign countries or international organizations, “value” means the contract or production costs. 22 U.S.C. § 2403(m).

<sup>18</sup>22 U.S.C. § 2318(a)(1).

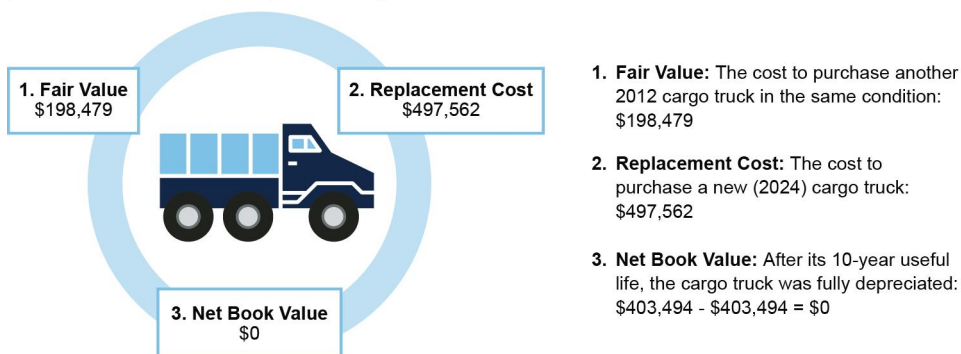
<sup>19</sup>Useful life is the normal operating life in terms of utility to the owner.

One component, for example, valued 10 vehicles that it provided under PDA to Ukraine at a total of \$7,050,000; however, the supporting documentation indicated that the net book value for each vehicle was zero dollars. If the component had used net book value as directed by the FMR accounting policy, it would have valued these 10 vehicles at zero dollars, leaving over \$7 million in additional drawdown authority for Ukraine. According to these officials, following the FMR accounting policy by valuing these articles at zero dollars could theoretically allow DOD to provide unlimited quantities of certain articles to Ukraine, and they did not believe that was Congress’s intent when establishing a maximum aggregate value in the Foreign Assistance Act.

Not having clear guidance on the method to use to value defense articles provided under PDA can affect the values given those articles. For example, as shown in figure 5, the value assigned for a cargo truck purchased in 2012 for \$403,494 could range from \$0 to \$497,562, depending on the valuation method used.

**Figure 5: Comparison of Values Derived from Different Valuation Methods**

Depending on the valuation method used, the value of a 6x6 cargo truck with a useful life of 10 years purchased in 2012 for \$403,494 will vary.



Source: GAO. | GAO-24-106934

According to OUSD (Comptroller) officials, when they learned that DOD components were using replacement cost to value defense articles sent to Ukraine, they had very little time to consider the best way to resolve the issue, given the rapid tempo of drawdowns. These officials stated that they selected the FMR accounting policy because it was already in place, and it supported their interpretation of the Foreign Assistance Act’s definition of “value.” However, OUSD (Comptroller) officials acknowledged that the FMR does not specifically address how to value defense articles for PDA purposes, and it could be beneficial to add such a section. They also stated that the challenge of selecting a valuation method is greater due to the lack of clarity in the act about both the definition of “value” as it relates to PDA and the purpose of the maximum aggregate value.

Federal internal control standards state that management should implement control activities through policies, such as by reviewing policies and procedures for continued relevance and effectiveness in achieving the agency’s objectives.<sup>20</sup> Without clarifying the definition of “value” and the purpose of the maximum aggregate value in the Foreign Assistance Act, DOD may not be able to establish clear guidance for DOD components to follow for valuing defense articles under PDA. Further, without PDA-specific guidance on valuation of defense articles, DOD components may continue to use inconsistent valuation methods that may not align with the

<sup>20</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 2014), principle 12.



intent of the Foreign Assistance Act. Further, the use of varying methods for calculating values of defense articles may result in inaccurate calculations of drawdown authority used.

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## DOD Components Did Not Consistently Follow Guidance for Valuing Defense Articles Provided to Ukraine under PDA

Based on our discussion with DOD components and our review of records of defense articles provided to Ukraine under PDA, we found that one component developed and is using a method to value general equipment that does not comply with the FMR accounting policy. We also found that DOD components did not consistently follow DOD guidance when valuing defense articles or maintaining documentation to support the valuation methods used and values reported for articles provided to Ukraine under PDA.

### Army Developed a Valuation Method That Does Not Comply with the FMR Accounting Policy

As previously mentioned, the FMR accounting policy requires DOD components to use net book value when determining the value of general equipment. However, according to Army officials, the Army does not use net book value to report its initial valuation of general equipment to DSCA because it does not know, at that stage of the presidential drawdown process, which specific serially managed articles it will ultimately provide.<sup>21</sup> Instead, to estimate values for general equipment, the Army uses a method that does not comply with the FMR accounting policy. Under this method, the Army calculates the average net book value of all items of equipment with the same national stock number and then uses that average each time it reports a value for one of those items.<sup>22</sup>

For instance, the Army's inventory of one type of armored vehicle it provided to Ukraine has net book values ranging from \$0 to approximately \$1.3 million, with approximately 37 percent having a value of \$0. The Army calculated an average net book value of \$461,000 for these armored vehicles. Therefore, when the Army provides one of these armored vehicles under PDA, it values the vehicle at \$461,000, regardless of its specific net book value. Army officials stated that the Army provides over 80 percent of the defense articles given to Ukraine under PDA, and the use of average net book value allows the Army to swiftly value this large quantity of articles and still maintain the approximately 2-week drawdown tempo.

### DOD Components Inconsistently Complied with Valuation Guidance

We found that some DOD components inconsistently complied with DOD guidance—including the FMR accounting policy, the March 2023 and June 2023 memorandums, and the SAMM—when valuing defense articles provided to Ukraine under PDA. According to our analysis of the methods DOD components reported using, we estimate that about 12 percent of all defense articles provided to Ukraine under PDA were valued

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<sup>21</sup>A serially managed item is an item designated by DOD to be uniquely tracked, controlled, or managed in maintenance, repair, or supply systems, or a combination of these, by means of its serial number or unique item identifier. *Defense Federal Acquisition Regulation Supplement* § 252.245-7005.

<sup>22</sup>The national stock number is a 13-digit unique code assigned to an item of supply that is repeatedly stocked, stored, and issued throughout the federal supply system.



using methods that did not comply with DOD guidance and may need to be revalued using methods that do comply.<sup>23</sup> We identified several methods in our sample that do not comply with guidance:

- **Standard price.** We identified 10 records of general equipment that three DOD components valued at over \$33 million total using standard price, which is not an allowable valuation method for general equipment under the FMR accounting policy.<sup>24</sup> According to a DOD official, a component may have chosen this method because it was using standard price as an estimate of the acquisition cost under deemed cost methods. Our review of the FMR accounting policy found that under deemed cost (allowable alternative valuation) methods, when a reasonable estimate (such as standard price) is used to value general equipment, the amount should be adjusted to account for inflation since the time of acquisition. However, in the records we reviewed, no such adjustments were made.
- **Moving average cost.** We identified four records of general equipment that one DOD component valued at over \$921,000 total using moving average cost, which is not allowable for general equipment under the FMR accounting policy. The component's officials did not provide an explanation for why the method was used.
- **Replacement cost.** We identified 17 defense articles that four DOD components valued at approximately \$15 million total using replacement cost. Although replacement cost is an allowable alternative valuation method under the FMR accounting policy, the March 2023 memorandum and the SAMM state that this method should not be used in determining the value of defense articles provided under PDA. Of the four components that used replacement cost, two told us that they were aware that the method is not allowable in such cases and have rectified or are in the process of rectifying its use, while the other two did not provide an explanation for their use of the method.

Furthermore, we found that some DOD components did not perform a full review to determine if defense articles needed to be revalued. We found that some DOD components reviewed line-by-line the methods they used to value defense articles they provided to Ukraine to determine which articles needed to be revalued. However, other components acknowledged that they did not perform a similarly thorough review. For example, one component's official stated that given the scope and scale of the revaluation effort, they automated the revaluation process by matching the national stock numbers listed in the EXORD to either the average net book value or standard price. In cases where there was not a match, the automated process may not have identified the article needing revaluation. According to this official, the component has reviewed the valuation methods for defense articles that were omitted in its original review and, as of April 2024, has identified additional reductions in values totaling almost \$2 billion, of which \$1.6 billion was for OM&S.

Another component did not review the methods it used to value the defense articles it provided for two drawdown packages. According to this component's officials, the component missed the two drawdown packages in its initial review and, as of April 2024, is in the process of evaluating whether any additional defense articles need to be revalued. The component has thus far identified \$119 million of additional

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<sup>23</sup>The estimate is 12.5 percent with a 95 percent confidence interval of (8.0, 19.1).

<sup>24</sup>The standard price is the price customers are charged, which reflects DOD's stabilized price policy requiring item pricing that remains constant throughout a fiscal year for Inventory Control Point managed items. The standard price is calculated based on factors that include the replenishment cost of the item plus surcharges to recover costs for transportation; inventory loss, obsolescence, and maintenance; depreciation; and supply operations. DOD FMR, vol. 4, ch. 4, "Inventory and Related Property," 2.27 (Nov. 2017).

reductions in values. The \$2 billion above and this \$119 million are in addition to the \$6.2 billion misvaluation originally identified in 2023 for defense articles provided under PDA to Ukraine for fiscal years 2022 and 2023.

### DOD's Documentation Did Not Consistently Support Its PDA Valuation

We were unable to consistently validate the valuation methods that DOD components indicated using or the resulting values they derived for the presidential determination. In June 2023, OUSD (Comptroller) directed DOD components to certify for each presidential drawdown that the methodology and calculations used to value the articles complied with the FMR accounting policy. These certifications also include a statement affirming that the DOD component will retain on file all supporting documentation for audit and inspection. We found that none of the DOD components were consistently following the June 2023 memorandum, although each attested to its compliance via submission of the required certifications.

- **Documentation did not support the indicated valuation method.** According to our analysis, we estimate that about 36 percent of the valuation methods that DOD components indicated they used for defense articles provided to Ukraine under PDA cannot be verified.<sup>25</sup> Specifically, we estimate that DOD components do not have supporting documentation for their indicated valuation methods for about 16 percent of the records.<sup>26</sup> For the remaining 20 percent, we estimate that DOD components have documentation that contains data that are either insufficient to validate the method indicated or do not support the method indicated.<sup>27</sup> For example, for some records, the supporting documentation was missing data needed for the calculation of net book value, such as the acquisition date or the useful life of the defense article. For other records, the supporting documentation contradicted the indicated method, such as provided documentation showing a standard price valuation method when the DOD component indicated that moving average cost valuation method was used.
- **Documentation did not support the reported value.** According to our analysis, we estimate that about 61 percent of the estimated values that DOD components reported for defense articles provided to Ukraine under PDA cannot be verified.<sup>28</sup> Specifically, we estimate that DOD components do not have supporting documentation for their reported values for about 14 percent of the records. Further, we estimate that about 47 percent of the records contain values that do not match their supporting documentation.<sup>29</sup> For example, in one record we were unable to validate a DOD component's valuation of 500 missiles at over \$40 million because the component did not provide supporting documentation. In another record, the supporting documentation indicated that a set of 179,900 defense articles were priced at \$20.92 each, which would result in a total value of approximately \$3.8 million. However, the value that the component provided for the presidential determination was \$107.9 million, a difference of \$104.1 million.

Some DOD components did not provide explanations for why they were unable to provide supporting documentation. However, officials from other components cited reasons such as a failure to retain the original

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<sup>25</sup>The estimate is 36.6 percent with a 95 percent confidence interval of (28.7, 44.4).

<sup>26</sup>The estimate is 16.4 percent with a 95 percent confidence interval of (11.2, 23.5).

<sup>27</sup>The estimate is 20.1 percent with a 95 percent confidence interval of (13.7, 26.6).

<sup>28</sup>The estimate is 60.9 percent with a 95 percent confidence interval of (52.7, 69.0).

<sup>29</sup>The estimate is 14.4 percent with a 95 percent confidence interval of (9.6, 21.0). The estimate is 46.5 percent with a 95 percent confidence interval of (38.5, 54.5).

documentation or said that other federal agencies or DOD components were responsible for procuring defense articles and maintaining the associated documentation.

Additionally, some DOD component officials stated that they do not have component-specific PDA guidance on oversight procedures, including the roles and responsibilities of staff responsible for valuing defense articles, and maintenance of data and supporting documentation. Currently, three of the five DOD components are in the process of developing such procedures. Some component officials noted that DOD and its components have long-standing material weaknesses identified by their auditors related to general equipment, OM&S, and maintaining supporting documentation, all of which add to the challenge of providing sufficient documentation to support the valuation methods and resulting values.<sup>30</sup>

Federal internal control standards state that management should design control activities to achieve objectives and respond to risks.<sup>31</sup> Control activities are the policies and procedures that enforce management's directives. Without procedures to ensure that (1) the methods used to calculate values for defense articles provided under PDA comply with DOD guidance and (2) documentation is maintained to support the valuation methods and values, DOD component officials cannot ensure that their calculation of values, use of valuation methods, and retention of supporting documentation are being performed in accordance with DOD guidance. As a result, components cannot ensure that the values they provide to calculate the presidential determination authorization amount are accurate and supportable, despite all components providing certifications that their drawdown values were calculated in accordance with the FMR accounting policy and that supporting documentation would be retained.

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## DSCA Has Not Documented Its Procedures for Maintaining Presidential Drawdown Valuation Data

According to DSCA officials, DSCA's 1000 System is the official system of record for presidential drawdown data, and the DOD components are responsible for establishing and updating records in the system. However, according to these officials, there is sometimes a delay between the release of an EXORD and the update or creation of the record in the system, and the system is not capable of displaying summary-level information in a manner that is easy to understand. To address the limitations with the 1000 System, DSCA developed the Presidential Determination Tracker (PD Tracker), which it uses to aggregate total authorization amounts across multiple drawdowns and determine how much authority remains on individual presidential determinations.<sup>32</sup> However, DSCA has not documented the procedures for maintaining data in the PD Tracker, including steps such as compiling, entering, reviewing, verifying, and validating the accuracy of valuation data.

DSCA populates the PD Tracker each week with data from released EXORDs and the 1000 System and identifies any discrepancies between these two data sources. DSCA communicates the discrepancies to the DOD components for resolution. DOD components also review and verify the data in the PD Tracker weekly

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<sup>30</sup>A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

<sup>31</sup>GAO-14-704G, principle 10.

<sup>32</sup>The PD Tracker contains several fields for each defense article record, including the quantity authorized, total value for the quantity authorized, article description, and national stock number.

and notify DSCA of any errors they identify. Although DSCA has implemented a control for DOD components to review and verify the PD Tracker data, our review of the records in our selected sample found valuation inaccuracies in the drawdown data. For example, we identified 34 records of defense articles provided by one component that mistakenly listed the per-unit cost in the total value column, leading to an undervaluation of defense articles provided to Ukraine of approximately \$128,000. According to component officials, these differences were the result of manual data entry errors, which it is working to address. According to a DSCA official, reliability of the PD Tracker depends on the accuracy of information that DOD components provide; however, the component was not aware of these errors until our testing brought them to its attention.

According to a DSCA official, DSCA has procedures for compiling, entering, reviewing, and validating the valuation data in the PD Tracker, all of which are performed by the one individual who manages the PD Tracker. According to this official, the reason that these steps and the requirement for review and verification by DOD components are not documented is that there have been continuous changes and refinements to the PD Tracker over the past 2 years to accommodate the needs of the drawdowns for Ukraine. Therefore, any documented procedures would have required constant updating. However, this official stated that it would be beneficial to document these procedures for consistency in performance as well as continuity in the event of personnel turnover.

According to federal internal control standards, management should implement control activities through policies, which include documentation of responsibilities.<sup>33</sup> Without documented procedures that clearly indicate the roles and responsibilities for compiling, entering, reviewing, verifying, and validating the accuracy of valuation data, the PD Tracker may continue to have errors that may go undetected. Further, DSCA's reliance on inaccurate data to calculate how much presidential determination authorization has been used may result in incorrect calculations of the amount remaining, which could increase the risk of exceeding the authorization amount.

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## DOD's Valuation Methods Are Consistent across Drawdown Recipients, Though Some Do Not Align with Guidance

We found that DOD's methods for valuing defense articles provided under PDA to Ukraine are consistent with the valuation methods used for articles provided under PDA to other recipients. From the issuance of the March 2023 memorandum until the end of fiscal year 2023, no new presidential determination was issued for PDA recipients other than Ukraine and Taiwan. Our review of all 19 records of defense articles provided to Taiwan found that the Army valued most of these articles in accordance with the FMR accounting policy. However, the Army valued the two general-equipment defense articles using the net book value average, which does not align with the FMR accounting policy but is consistent with its valuation methods for articles provided to Ukraine.

As previously explained, prior to the issuance of the March 2023 memorandum, DOD components valued defense articles provided as part of a drawdown package using replacement cost, in accordance with the SAMM. According to several DOD component officials, they used this valuation method regardless of the recipient. However, according to DOD component officials, OUSD (Comptroller) did not instruct them to review their valuation methods for articles they provided under PDA prior to August 27, 2021, for any recipient, to

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<sup>33</sup>GAO-14-704G, principle 12.

determine if the amounts needed to be revalued in accordance with the memorandum. As a result, some of the defense articles provided under PDA prior to August 27, 2021, are still valued using replacement cost.

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## Conclusions

PDA enables the President to draw down defense articles from DOD's inventories to respond to U.S. foreign policy and national security objectives. DOD components determine estimated values for the defense articles they contribute to drawdowns. However, the Foreign Assistance Act, which authorizes PDA, does not provide a clear definition of "value," and DOD's FMR accounting policy is lacking PDA-specific valuation guidance. Components also do not consistently follow DOD guidance for valuing these articles nor do they maintain documentation to support the valuation methods used and values reported. Further, DSCA has not documented its procedures for maintaining presidential drawdown valuation data in the PD Tracker. Without (1) clear and specific guidance on how to value the articles provided under PDA and (2) procedures to ensure that valuation methods comply with guidance and that PDA valuation procedures are documented, DOD cannot have assurance that the articles will be valued accurately and, hence, that the total value for a drawdown remains within the authorization amount.

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## Matter for Congressional Consideration

Congress should consider clarifying the definition of "value" as it relates to defense articles provided under PDA, as described in the Foreign Assistance Act of 1961, to help ensure appropriate application of statutory aggregate value caps. (Matter for Congressional Consideration 1)

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## Recommendations for Executive Action

We are making the following seven recommendations to DOD:

The Secretary of Defense should ensure that the Under Secretary of Defense (Comptroller) (1) identifies PDA-specific method(s) to value defense articles and (2) updates existing guidance to include a PDA-specific section on valuation. (Recommendation 1)

The Secretary of Defense should ensure that the Secretary of the Army develops and documents policies and procedures for the Army to (1) calculate values for defense articles provided under PDA that comply with DOD guidance and (2) maintain supporting documentation for the valuation methods used and the values calculated. (Recommendation 2)

The Secretary of Defense should ensure that the Secretary of the Navy develops and documents policies and procedures for the Navy to (1) calculate values for defense articles provided under PDA that comply with DOD guidance and (2) maintain supporting documentation for the valuation methods used and the values calculated. (Recommendation 3)

The Secretary of Defense should ensure that the Secretary of the Air Force develops and documents policies and procedures for the Air Force to (1) calculate values for defense articles provided under PDA that comply

with DOD guidance and (2) maintain supporting documentation for the valuation methods used and the values calculated. (Recommendation 4)

The Secretary of Defense should ensure that the Secretary of the Navy together with the Commandant of the Marine Corps develop and document policies and procedures for the Marine Corps to (1) calculate values for defense articles provided under PDA that comply with DOD guidance and (2) maintain supporting documentation for the valuation methods used and the values calculated. (Recommendation 5)

The Secretary of Defense should ensure that the Commander of the United States Special Operations Command develops and documents policies and procedures for the Special Operations Command to (1) calculate values for defense articles provided under PDA that comply with DOD guidance and (2) maintain supporting documentation for the valuation methods used and the values calculated. (Recommendation 6)

The Secretary of Defense should ensure that the Under Secretary of Defense for Policy documents procedures for maintaining PDA valuation data, such as in the PD Tracker, including steps for (1) compiling, entering, reviewing, verifying, and validating the data and (2) how the DOD components should perform their reviews. (Recommendation 7)

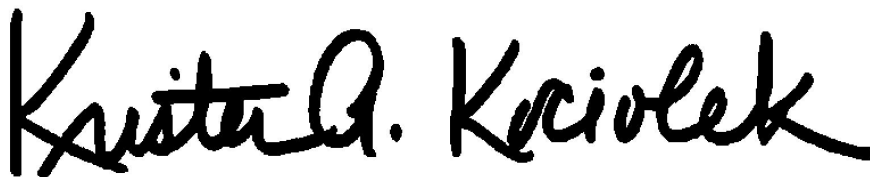
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## Agency Comments

We provided a draft of this report to DOD for review and comment. In its written comments, DOD concurred with all seven of our recommendations and cited actions it will take to address them. DOD and the Army also provided us with technical comments, which we have incorporated into the report as appropriate. DOD's comments are reproduced in appendix II.

We are sending copies of this report to the appropriate congressional addressees, the Secretary of Defense, the Under Secretary of Defense (Comptroller), the Under Secretary of Defense for Policy, the Secretary of the Army, the Secretary of the Navy, the Secretary of the Air Force, the Commandant of the Marine Corps, the Commander of the United States Special Operations Command, and other interested parties. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-2989 or [kociolek@gao.gov](mailto:kociolek@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.



Kristen Kociolek  
Director, Financial Management and Assurance

*List of Addressees*

The Honorable Jack Reed  
Chairman  
The Honorable Roger Wicker  
Ranking Member  
Committee on Armed Services  
United States Senate

The Honorable Sheldon Whitehouse  
Chairman  
The Honorable Chuck Grassley  
Ranking Member  
Committee on the Budget  
United States Senate

The Honorable Ben Cardin  
Chairman  
The Honorable James Risch  
Ranking Member  
Committee on Foreign Relations  
United States Senate

The Honorable Gary C. Peters  
Chairman  
The Honorable Rand Paul, M.D.  
Ranking Member  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The Honorable Jon Tester  
Chair  
The Honorable Susan Collins  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
United States Senate

The Honorable Chris Coons  
Chair  
The Honorable Lindsey Graham  
Ranking Member  
Subcommittee on State, Foreign Operations, and Related Programs  
Committee on Appropriations  
United States Senate

The Honorable Mike Rogers  
Chairman  
The Honorable Adam Smith  
Ranking Member  
Committee on Armed Services  
House of Representatives

The Honorable Jodey Arrington  
Chairman  
The Honorable Brendan Boyle  
Ranking Member  
Committee on Budget  
House of Representatives

The Honorable Michael McCaul  
Chairman  
The Honorable Gregory Meeks  
Ranking Member  
Committee on Foreign Affairs  
House of Representatives

The Honorable James Comer  
Chairman  
The Honorable Jamie Raskin  
Ranking Member  
Committee on Oversight and Accountability  
House of Representatives

The Honorable Ken Calvert  
Chair  
The Honorable Betty McCollum  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
House of Representatives

The Honorable Mario Diaz-Balart  
Chair  
The Honorable Barbara Lee



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Letter

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Ranking Member  
Subcommittee on State, Foreign Relations, and Related Programs  
Committee on Appropriations  
House of Representatives

The Honorable Marco Rubio  
United States Senate

# Appendix I: Objectives, Scope, and Methodology

This report examines the extent to which the Department of Defense's (DOD) methods used to value defense articles provided to Ukraine under Presidential Drawdown Authority (PDA) have been consistent with (1) relevant DOD guidance and (2) the methods DOD has used to value defense articles provided to other recipients under PDA.

To address our two objectives, we reviewed prior audit reports that GAO and DOD's Office of Inspector General issued from fiscal year 2019 through fiscal year 2023 to gain an understanding of issues related to PDA. We also reviewed DOD guidance, such as the *Financial Management Regulation* (FMR), Defense Security Cooperation Agency's (DSCA) *Security Assistance Management Manual* (SAMM), and the Office of the Under Secretary of Defense (OUSD) (Comptroller)'s *Clarification of Presidential Drawdown Authority Valuation of Defense Articles* (March 31, 2023) memorandum to obtain information related to the presidential drawdown process and identify the methods required to value defense articles provided to Ukraine and other PDA recipients.

Additionally, we interviewed officials from various DOD offices to gain an understanding of the guidance, methods, process, and oversight of the process for valuing defense articles provided to Ukraine and other PDA recipients. These DOD offices included OUSD (Comptroller), OUSD (Acquisition and Sustainment), DSCA, and selected DOD components—Department of the Air Force, Department of the Army, U.S. Navy, U.S. Marine Corps, and U.S. Special Operations Command. We compared the procedures and valuation methods that DOD officials described to the requirements in relevant DOD guidance. For any issues identified in our comparison, we followed up with DOD officials to confirm our understanding and determine the reasons for the identified issues.

To address our first objective, we selected a statistical sample of 291 line-item records of defense articles from the population of 3,786 nonclassified records of defense article provided to Ukraine that were recorded in the Presidential Determination Tracker (PD Tracker) as of September 26, 2023. DOD provided us with a list of 4,540 records of defense articles and services provided to Ukraine under PDA from August 2021 through September 2023. From this initial dataset, we filtered out the following:

- A total of 701 records consisting of (1) services such as costs associated with training, software purchases, and upgrades; (2) transportation costs; and (3) defense articles identified as classified, but which contained no details beyond the cost.
- A total of 53 records identified as having both a total cost of \$0 (or missing) and a quantity of 0 (or missing).

This resulted in an updated population of 3,786 nonclassified records. These records contained information such as defense article description, quantity, original value, and revalued amount (if applicable), which was recorded by DSCA and validated by the Air Force, Army, U.S. Navy, U.S. Marine Corps, and U.S. Special Operations Command.

To evaluate our sample of records, we first stratified the sample by DOD component (resulting in five strata) and calculated the number of records (sample size) for each. This allowed us to statistically evaluate our sample and use the results to describe the full population of records with a margin of error no greater than plus

or minus 12 percentage points at a 95 percent level of confidence. Some of the records within each of the five strata were for defense articles that had been revalued after it was determined they had initially been valued at the replacement cost. We therefore split each of the five strata into two substrata (“revalued” and “not revalued”). Prior to selecting our sample, the records were sorted by dollar value from smallest to largest, and sampling within each stratum was done via systematic random sampling. This ensured that our statistical sample was representative of both the dollar value and proportion of records that had previously been revalued (see table 1).

**Table 1: Stratification of Sample Records of Defense Articles Provided to Ukraine**

No.	Department of Defense component	Total records of defense articles tested	Records of revalued defense articles tested	Records of not-revalued defense articles tested
1	Department of the Air Force	54	27	27
2	Department of the Army	66	5	61
3	U.S. Navy	55	4	51
4	U.S. Marine Corps	58	36	22
5	U.S. Special Operations Command	58	2	56
	Total	291	74	217

Source: GAO based on sample selection for testing. | GAO-24-106934

For our review, we removed six records that we determined were outside the scope of our review. Five of these six records were records of services rather than defense articles; the sixth was for an article that belonged to a component other than the one indicated in the record. The removal of these records resulted in an updated sample size of 285 records. We also reclassified 10 records that we determined to be initially misclassified. Specifically, we learned that 10 records in our “revalued” substrata had not been revalued, and we subsequently reclassified them as “not revalued.”

We performed tests of controls on our statistical sample of 285 records. All random samples are subject to sampling error—that is, the extent to which the results for a sample might differ from what would have been obtained if the whole population had been observed. Because we followed a probability procedure based on random selection, our sample is only one of many samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our sample’s results as a 95 percent confidence interval. This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn. All sample estimates presented in our report are generalizable to the population of 3,786 records in the PD Tracker as of September 26, 2023, unless otherwise noted.

For each record selected, we requested the relevant DOD component to provide the following information: (1) defense article type (e.g., general equipment or operating material and supplies) and (2) methods used to calculate the defense article’s initial value and revalued (if applicable) amounts. Additionally, we requested that the DOD components provide documentation to support both the method used to calculate the value of the defense article and the resulting calculated amounts. We reviewed the documentation to validate each valuation method and the initial value and revalued amounts identified by each DOD component.

Next, we compared and determined whether the identified method (1) was consistent with relevant DOD guidance and (2) was consistently applied within and across all DOD components. We then shared the results of this testing with DOD and incorporated any additional information DOD officials provided into our analysis,

as appropriate. We interviewed DOD officials to confirm our understanding of the reasons for any issues identified.

To address our second objective, we used testimonial evidence that selected DOD component officials provided to identify the methods used to value defense articles provided to recipients other than Ukraine before the issuance of the March 2023 memorandum. We did not select a sample of these defense articles, however, because DOD component officials stated that they did not review the methods used to value the articles to determine if the amounts needed to be revalued in accordance with the memorandum. These officials stated that OUSD (Comptroller) had not instructed them to perform this review. Taiwan was the only PDA recipient other than Ukraine for which new presidential determinations were issued after the March 31, 2023, memorandum until the end of fiscal year 2023. Therefore, we selected all 19 nonclassified records of defense articles included in Taiwan execute order (EXORD) 2023-01, as of August 3, 2023. All defense articles included in the EXORD were provided by the Army.

For the records of defense articles provided to Taiwan, we requested similar information and documentation to what we requested for our analysis of the PDA defense articles provided to Ukraine. For each record, using the documentation provided, we (1) validated if the valuation method was consistent with relevant guidance and (2) compared the methods used to value defense articles provided to Taiwan against the methods used to value defense articles provided to Ukraine to determine if the methods aligned. We then shared the results of testing with DOD and incorporated any applicable additional information DOD officials provided into our analysis, as appropriate. We interviewed DOD officials to confirm our understanding of the reasons for any issues identified.

To assess the reliability of the data in the PD Tracker and Taiwan EXORD 2023-01, we conducted interviews with relevant agency officials and performed validity checks, such as comparing summary-level presidential determination data and dollar amounts to other DOD and federal sources such as the *Federal Register*. Based on this work, we found the data to be sufficiently reliable to project results of our systematic random sample testing to the remaining population of records of defense articles provided to Ukraine. Margins of error varied depending on the specific stratum being projected and are disclosed with all estimates contained within the report. For our analysis of PDA defense articles provided to Taiwan, no projection was performed because we tested the full population of records.

We conducted this performance audit from June 2023 to July 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix II: Comments from the Department of Defense



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

June 27, 2024

Ms. Kristen Kociolek  
Director, Financial Management and Assurance  
U.S. Government Accountability Office  
441 G Street, NW  
Washington DC 20548

Dear Ms. Kociolek:

This is the Department of Defense (DoD) response to the Government Accountability Office (GAO) Draft Report GAO-21-106934, "UKRAINE ASSISTANCE: Actions Needed to Properly Value Defense Articles Provided under Presidential Drawdown Authority," dated July 2024. Enclosed, you will find our detailed responses to GAO recommendations.

During our internal review of the Presidential Drawdown Authority (PDA) execution, we identified an overvaluation of the defense articles provided to Ukraine. We promptly initiated corrective measures to revalue the articles and amend our valuation policy. We urge the GAO to acknowledge in its final report that none of the DoD's actions, either prior to or following the revaluation efforts, violated any legal requirements governing the use of PDA.

Specifically, the DoD has adhered to the statutory limits pertaining to the value of defense articles and services authorized for transfer to Ukraine. Our focus last year was solely on standardizing the valuation process across the Military Departments. We emphasize that the revaluation had no effect on the timeliness or amount of our support to Ukraine, nor did our valuation of PDA articles impact our annual financial statements or our regular financial reporting process.

We have already implemented corrective measures and enhanced our PDA business practices. On June 18, 2024, I issued a policy memorandum that supplements the existing policy on PDA valuation. This memorandum directs a comprehensive reconciliation of past transfers of defense articles to the Government of Ukraine under PDA, in accordance with the updated valuation guidance. These measures will ensure that our PDA valuation practices align with our policy.

My point of contact is Dr. Eddie Jo, 571-256-2707 or [eddie.j.jo.civ@mail.mil](mailto:eddie.j.jo.civ@mail.mil).

Thomas C. Steffens  
Deputy Chief Financial Officer

Enclosure:  
DoD Response to GAO Recommendations

**U.S. GOVERNMENT ACCOUNTABILITY OFFICE  
DRAFT REPORT DATED JULY 2024  
REPORT NO. GAO-24-106934 (GAO CODE 106934)**

**“UKRAINE ASSISTANCE: ACTIONS NEEDED TO PROPERLY VALUE DEFENSE  
ARTICLES PROVIDED UNDER PRESIDENTIAL DRAWDOWN AUTHORITY”**

**DEPARTMENT OF DEFENSE COMMENTS TO  
THE GOVERNMENT ACCOUNTABILITY OFFICE RECOMMENDATIONS**

**RECOMMENDATION 1:** The Secretary of Defense should ensure that the Under Secretary of Defense (Comptroller) (1) identifies Presidential Drawdown Authority (PDA)-specific method(s) to value defense articles and (2) updates existing guidance to include a PDA-specific section on valuation.

**DoD RESPONSE 1:** Concur. On June 18, 2024, the Deputy Chief Financial Officer issued a policy memorandum outlining specific methodologies for valuing defense articles under the PDA. This memorandum further instructed DoD Components to reconcile their records of past transfers of defense articles to the Government of Ukraine, in accordance with the newly updated PDA-specific valuation guidance.

In addition, the DoD Financial Management Regulation will be revised to incorporate this updated PDA-specific valuation guidance within a dedicated PDA chapter. These actions are designed to ensure that our PDA valuation practices are consistently aligned with our policy directives.

**RECOMMENDATION 2:** The Secretary of Defense should ensure that the Secretary of the Army develop and document policies and procedures for Army to (1) calculate values for defense articles provided under PDA that comply with DoD guidance and (2) maintain supporting documentation for the valuation methods used and the values calculated.

**DoD RESPONSE 2:** Concur. The Secretary of the Army is currently conducting reconciliations of items transferred to Ukraine under the PDA, ensuring their valuation aligns with the established policy. Additionally, the Secretary of the Army is updating internal policies and procedures to adhere to the recently clarified DoD guidance. This guidance pertains to the maintenance of supporting documentation for the valuation methodologies employed in calculating the values of articles provided under the PDA.

**RECOMMENDATION 3:** The Secretary of Defense should ensure that the Secretary of the Navy develop and document policies and procedures for Navy to (1) calculate values for defense articles provided under PDA that comply with DoD guidance and (2) maintain supporting documentation for the valuation methods used and the values calculated.

**DoD RESPONSE 3:** Concur. The Secretary of the Navy is currently conducting reconciliations of items transferred to Ukraine under the PDA, ensuring their valuation aligns with the established policy. Additionally, the Secretary of the Navy is updating internal policies and

procedures to adhere to the recently clarified DoD guidance. This guidance pertains to the maintenance of supporting documentation for the valuation methodologies employed in calculating the values of articles provided under the PDA.

**RECOMMENDATION 4:** The Secretary of Defense should ensure that the Secretary of the Air Force develop and document policies and procedures for Air Force to (1) calculate values for defense articles provided under PDA that comply with DoD guidance and (2) maintain supporting documentation for the valuation methods used and the values calculated.

**DoD RESPONSE 4:** Concur. The Secretary of the Air Force is currently conducting reconciliations of items transferred to Ukraine under the PDA, ensuring their valuation aligns with the established policy. Additionally, the Secretary of the Air Force is updating internal policies and procedures to adhere to the recently clarified DoD guidance. This guidance pertains to the maintenance of supporting documentation for the valuation methodologies employed in calculating the values of articles provided under the PDA.

**RECOMMENDATION 5:** The Secretary of Defense should ensure that the Secretary of the Navy together with the Commandant of the Marine Corps develop and document policies and procedures for Marine Corps to (1) calculate values for defense articles provided under PDA that comply with DoD guidance and (2) maintain supporting documentation for the valuation methods used and the values calculated.

**DoD RESPONSE 5:** Concur. The Secretary of the Navy, in collaboration with the Commandant of the Marine Corps, is already performing reconciliations of items provided to Ukraine under the PDA to ensure they are valued in accordance with the valuation policy. Further, the Commandant of the Marine Corps is revising internal policies and procedures to comply with recently clarified DoD guidance for maintaining supporting documentation for valuation methods used to calculate values of articles provided in support of PDA.

**RECOMMENDATION 6:** The Secretary of Defense should ensure that the Commander of the United States Special Operations Command (USSOCOM) develop and document policies and procedures for USSOCOM to (1) calculate values for defense articles provided under PDA that comply with DoD guidance and (2) maintain supporting documentation for the valuation methods used and the values calculated.

**DoD RESPONSE 6:** Concur. The Commander of the United States Special Operations Command (SOCOM) is already performing reconciliations of items provided to Ukraine under the PDA to ensure they are valued in accordance with the valuation policy. Further, the Commander of SOCOM is revising internal policies and procedures to comply with recently clarified DoD guidance for maintaining supporting documentation for valuation methods used to calculate values of articles provided in support of PDA.

**RECOMMENDATION 7:** The Secretary of Defense should ensure that the Under Secretary of Defense for Policy documents procedures for maintaining PDA valuation data, such as in the PD Tracker, including steps for (1) compiling, entering, reviewing, verifying, and validating the data and (2) how the DoD components should perform their reviews.

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**DoD RESPONSE 7:** Concur. The Under Secretary of Defense for Policy, in collaboration with the Director Defense Security Cooperations Agency (DSCA), will continue to work closely with Under Secretary of Defense (Comptroller) and Service counterparts to oversee the reevaluation of PDA defense articles and to further refine and clarify PDA policy and procedural guidance.

In March 2024, DSCA initiated a comprehensive study of the PDA process with the objective of identifying potential enhancements in both process and technology. This study will not be limited to examining DSCA's role in the process, but will also scrutinize the roles, responsibilities, and processes of other DoD stakeholders involved in PDA efforts. This holistic approach ensures a thorough review and optimization of the entire PDA process.



# Accessible Text for Appendix II: Comments from the Department of Defense

June 27, 2024

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Director, Financial Management and Assurance  
U.S. Government Accountability Office  
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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

Kristen Kociolek, (202) 512-2989 or [kociolekk@gao.gov](mailto:kociolekk@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Kimberley McGatlin (Assistant Director), Carl Barden, Rathi Bose, Seth Brewington, Giovanna Cruz, Lauren Dunn, Benjamin Durfee, Joanne Howard, Jason Kelly, Courtney Paz, and Dacia Stewart made key contributions to this report.

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