



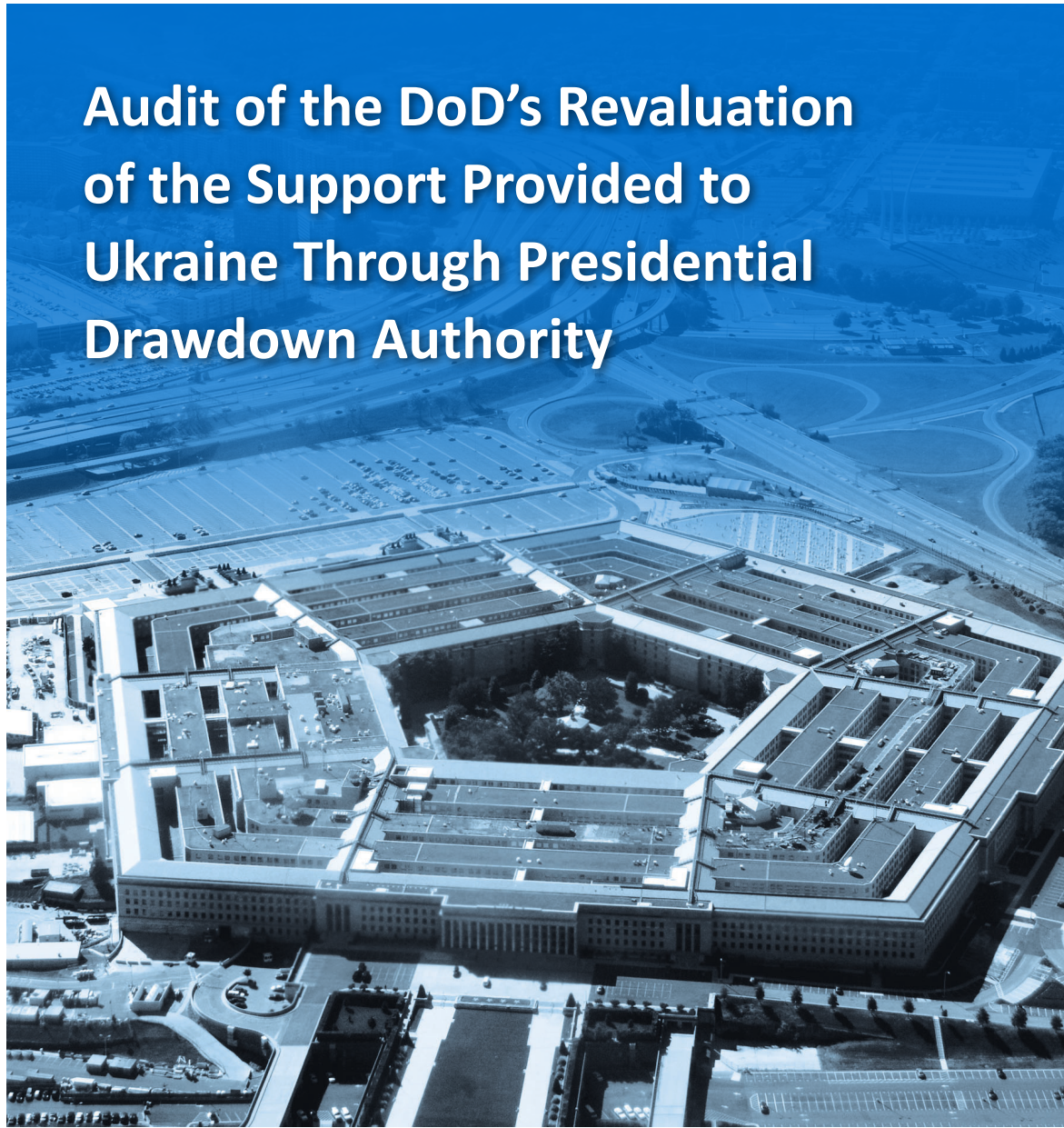
INSPECTOR GENERAL

U.S. Department of Defense

JUNE 11, 2024



Audit of the DoD's Revaluation of the Support Provided to Ukraine Through Presidential Drawdown Authority



INDEPENDENCE ★ INTEGRITY ★ EXCELLENCE ★ TRANSPARENCY





Results in Brief

Audit of the DoD's Revaluation of the Support Provided to Ukraine Through Presidential Drawdown Authority

June 11, 2024

Objective

The objective of this audit was to determine the extent and impact of the March 2023 estimation change for valuing assets provided under Presidential Drawdown Authority (PDA), determine whether DoD Components followed the current policy when updating the value of items provided to the Government of Ukraine (GoU) through PDA, and assess whether the current PDA valuation policy complies with Federal laws and regulations.

Background

From August 2021 through April 2024, the President issued 56 drawdown orders totaling \$23.9 billion to provide defense articles to the GoU. Defense articles provided to the GoU during this timeframe included military vehicles, ammunition, missiles, clothing, body armor, medical supplies, and a variety of other equipment. Congress set a cumulative limit of \$25.6 billion for the value of defense articles that could be provided to the GoU. To ensure compliance with these limits, the DoD is required to value the defense articles in accordance with Federal law and DoD policy.

From August 2021 to May 2023, the DoD provided defense articles to the GoU through 37 PDAs. On June 20, 2023, the DoD announced that during its review of defense articles provided to the GoU, it identified a net \$6.2 billion valuation overstatement that required adjustments for the defense articles provided to the GoU. The DoD stated that this adjustment was due to incorrectly using replacement cost to value the items provided by PDA to the GoU. We focused our audit on this revaluation effort.

Findings

We determined that the DoD's efforts to revalue the defense articles provided under PDA did not result in an accurate valuation and were not in compliance with Federal or DoD guidelines. Based on our nonstatistical sample, we determined that the DoD overvalued the sample of items that we reviewed by \$1.9 billion. More specifically, the Military Departments (MILDEPs) overvalued General Equipment (GE), including vehicles, aircraft, and other items subject to depreciation, in our sample by \$653 million. Depreciation is a decrease in value over time which accounts for the use, wear and tear, or obsolescence of an item. MILDEPs overvalued Operating Materials and Supplies (OM&S), including missiles, ammunition, and other items not subject to depreciation, in our sample by an additional \$1.25 billion.

Our report is divided into two findings, one that discusses DoD policies and actions to value GE provided to the GoU and a second that discusses DoD policies and actions to value OM&S. The Marine Corps took corrective actions relating to the Marine Corps OM&S issues identified in our report. The Army provided its planned approach for corrective actions on the Army OM&S issues identified in our report. While each type of defense article has different requirements for calculating its value under PDA, there were a few common reasons that the DoD did not provide accurate values during its revaluation effort.

Specifically, the MILDEPs did not accurately record GE and OM&S using the correct accounting valuation method for the following reasons.

- The MILDEPs did not verify the accuracy of GE and OM&S valuations, despite providing certifications that they fully complied with the valuation criteria.
- MILDEP financial reporting material weaknesses plagued proper recording and reporting of PDA provided to the GoU.
- DoD policies need to be more specific on developing PDA estimates, and reconciling PDA estimates to actual costs.

The DoD has limited assurance that the values it reported are correct, contrary to the DoD Components providing



Results in Brief

Audit of the DoD's Revaluation of the Support Provided to Ukraine Through Presidential Drawdown Authority

Findings (cont'd)

certifications that PDA is accurate and calculated in accordance with DoD policies. The DoD's failure to properly value GE and OM&S provided under PDA risks undermining confidence in how the DoD reports the use of the PDA provided by Congress for the GoU and other partner nations.

Recommendations

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD (USD[C]/CFO):

- Coordinate with the Defense Security Cooperation Agency (DSCA) to reevaluate the policy for valuing GE, including items with a net book value of zero, provided through PDA.
- Coordinate with DSCA to determine whether GE below the capitalization threshold provided through PDA should be valued at other than net book value and if so, update the DSCA Security Assistance Management Manual.
- Develop a standardized pricing methodology for valuing OM&S provided under PDA until the material weaknesses for valuing OM&S are resolved.
- Require the MILDEPs to perform a full reconciliation of GE and OM&S provided to the GoU under PDAs 1-37 to ensure those assets are revalued according to DoD accounting policies.
- Require the MILDEPs to develop and implement procedures to ensure there are adequate controls over valuing defense articles provided under PDA.

We also recommend that the Under Secretary of Defense for Policy, and the Director, DSCA:

- Perform a cost-benefit analysis of upgrading the manually intensive DSCA 1000 system environment to provide automated information, which includes all required data fields, to support DoD Components' tracking and reporting of PDA.

- Update the Security Assistance Management Manual to include information on developing initial estimates for valuing defense articles on the Presidential Determination and DSCA PDA Execute Orders, and guidance on updating initial estimated costs to actual costs of the PDA Execute Orders.
- Coordinate with the Office of the Under Secretary of Defense for Acquisition and Sustainment to develop a centralized repository of serialized GE provided under PDA.

Management Comments and Our Response

The USD(C)/CFO, in coordination with the Under Secretary of Defense for Policy, the Defense Security Cooperation Agency, and the MILDEPs, agreed with all the recommendations. The nine recommendations are resolved but will remain open. We will close the recommendations when we verify that management has implemented corrective actions. Please see the Recommendations Table on the next page for the status of the recommendations.

The USD(C)/CFO stated that none of the DoD's actions violated any legal provisions authorizing use of PDA. Additionally, the USD(C)/CFO mentioned that the DoD has fully complied with statutory limits for the value of defense articles authorized to be transferred to the GoU. The USD(C)/CFO explained that the DoD revaluation did not constrain support for the GoU and additional equipment could not and would not have been provided to the GoU had the overvaluation not occurred. Lastly, the USD(C)/CFO stated the DoD valuation of PDA defense articles did not directly affect any of the DoD annual financial statements or the DoD's regular financial reporting process.

Recommendations Table

Management	Recommendations Unresolved	Recommendations Resolved	Recommendations Closed
Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD		A.1.a, A.1.b, A.1.c, B.1.a, B.1.b, B.1.c	
Under Secretary of Defense for Policy and Director, Defense Security Cooperation Agency		A.2.a, A.2.b	
Under Secretary of Defense for Policy; Under Secretary of Defense for Acquisition and Sustainment; and Director, Defense Security Cooperation Agency		A.2.c	
Assistant Secretary of the Army (Financial Management and Comptroller)		A.1.b.1, B.1.a.1	
Assistant Secretary of the Navy (Financial Management and Comptroller)		A.1.b.2, B.1.a.2	
Assistant Secretary of the Air Force (Financial Management and Comptroller)		A.1.b.3, B.1.a.3	
Assistant Deputy Commandant for Programs and Resources of the Marine Corps		A.1.b.4, B.1.a.4	

Note: The following categories are used to describe agency management’s comments to individual recommendations.

- **Unresolved** – Management has not agreed to implement the recommendation or has not proposed actions that will address the recommendation.
- **Resolved** – Management agreed to implement the recommendation or has proposed actions that will address the underlying finding that generated the recommendation.
- **Closed** – The DoD OIG verified that the agreed upon corrective actions were implemented.





OFFICE OF INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

June 11, 2024

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER OF THE DEPARTMENT OF DEFENSE
DIRECTOR, DEFENSE SECURITY COOPERATION AGENCY
AUDITOR GENERAL, DEPARTMENT OF THE ARMY
AUDITOR GENERAL, DEPARTMENT OF THE NAVY
AUDITOR GENERAL, DEPARTMENT OF THE AIR FORCE

SUBJECT: Audit of the DoD's Revaluation of the Support Provided to Ukraine Through
Presidential Drawdown Authority (Report No. DODIG-2024-095)

This final report provides the results of the DoD Office of Inspector General's audit. We previously provided copies of the draft report and requested written comments on the recommendations. We considered management's comments on the draft report when preparing the final report. These comments are included in the report.

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD in coordination with the Under Secretary of Defense for Policy, Defense Security Cooperation Agency, and the Military Departments, agreed to address all the recommendations presented in the report; therefore, we consider the recommendations resolved and open. We will close the recommendations when you provide us documentation showing that all agreed-upon actions to implement the recommendations are completed. Therefore, within 90 days please provide us your response concerning specific actions in process or completed on the recommendations. Send your response to either followup@dodig.mil if unclassified or rfunet@dodig.smil.mil if classified SECRET.

If you have any questions, please contact me at [REDACTED].

FOR THE INSPECTOR GENERAL:

A handwritten signature in cursive script that reads "Lorin T. Venable".

Lorin T. Venable, CPA
Assistant Inspector General for Audit
Financial Management and Reporting

Contents

Introduction

Objective	1
Background	1

Finding A. The DoD Is Unable to Correctly Value PDA GE Sent to the GoU

8

Updates to PDA Guidance Comply with the FAA	9
DoD Estimation Changes Associated with GE to the GoU	9
MILDEPs Lack the Capability to Properly Perform PDA Requirements	16
DoD Revaluation of GE Sent to the GoU Was Understated	22
Other Matters of Interest	23
Recommendations, Management Comments, and Our Response	24

Finding B. MILDEPs Inconsistently Applied Estimates of OM&S for GoU PDA

29

DoD Accounting Errors Associated with OM&S to the GoU	29
The PDA Process Lacked Revaluation Oversight	35
DoD Material Weaknesses Limit MILDEPs' Ability to Accurately Use MAC	36
The DoD's Revaluation of OM&S Sent to the GoU Is Understated	37
Recommendations, Management Comments, and Our Response	38

Appendixes

Appendix A. Scope and Methodology	41
Internal Control Assessment and Compliance	43
Use of Computer-Processed Data	43
Appendix B. Prior Coverage	45

Management Comments

50

Under Secretary of Defense (Comptroller)	50
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Acronyms and Abbreviations

56

Glossary

57

Introduction

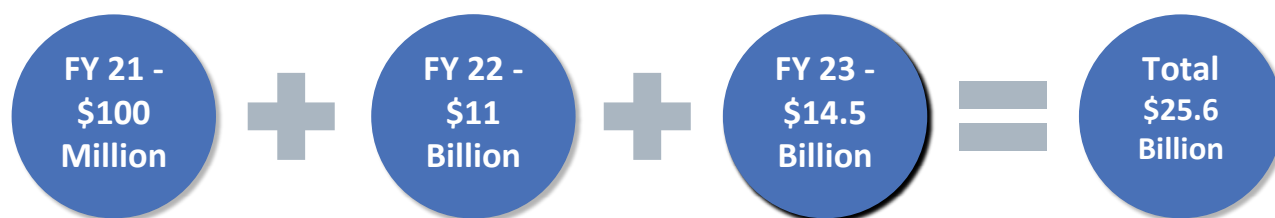
Objective

The objective of this audit was to determine the extent and impact of the March 2023 estimation change for valuing assets provided under Presidential Drawdown Authority (PDA), determine whether DoD Components followed the current policy when updating the value of items provided to the Government of Ukraine (GoU) through PDA, and assess whether the current PDA valuation policy complies with Federal laws and regulations. We focused our audit on military departments' (MILDEPs) valuation of unclassified general equipment (GE) and operating materials and supplies (OM&S) provided to the GoU under PDA.¹ See Appendix A for a discussion of the scope and methodology.

Background

The Foreign Assistance Act of 1961 (FAA), as amended, provides the President the emergency authority to direct the drawdown of up to \$100 million in DoD stockpiles to provide immediate military assistance to a foreign nation. Since Russia's full-scale invasion of Ukraine, Congress increased the FY 2022 cap on total GoU PDA assistance from \$100 million to \$11 billion. For FY 2023, Congress increased the GoU PDA assistance available by an additional \$14.5 billion, bringing the FYs 2021 through 2023 total to \$25.6 billion. From August 27, 2021, through April 24, 2024, the President issued 56 drawdown orders totaling approximately \$23.9 billion to provide defense articles to the GoU. Figure 1 provides a breakdown of the PDA limits from FYs 2021 through 2023.

Figure 1. Congressionally-Established FYs 2021 through 2023 PDA Amounts



Source: The DoD OIG.

¹ The term "MILDEPs" refers to the Departments of the Army, Navy, and Air Force within this report. While the Marine Corps is considered a Service branch within the Department of the Navy, the Marine Corps is reported separately in this report as a MILDEP.

The use of the PDA to direct a drawdown providing military assistance under § 506(a)(1) of the FAA (22 U.S.C. § 2318[a][1]) is a valuable tool of U.S. foreign policy in crisis situations. PDA allows for the speedy delivery of defense articles from DoD stocks and providing defense services to foreign countries and international organizations to respond to unforeseen emergencies. The PDA process begins when the National Security Council, Department of State, and DoD, in response to an international military or humanitarian crisis, identify a need for a drawdown of defense articles to assist in responding to the crisis.

The MILDEPs provide estimated valuation and availability of the defense articles for incorporation in the Presidential Determination (PD).² The defense article values include costs associated with GE, OM&S, transportation, training, and a variety of services including refurbishment of GE to bring the GE to combat readiness. The MILDEPs enter the valuation and availability information into the Defense Security Cooperation Agency (DSCA) 1000 information management system. This system is used for tracking, maintaining, and aggregating drawdown data to fulfill management information needs and meet legislative reporting requirements. The current DSCA 1000 system is a manually-intensive environment that requires DoD Components to manually input values and costs associated with the drawdown. According to the FAA (22 U.S.C. § 2403), the value for PDA nonexcess defense articles is “the acquisition cost to the United States Government, adjusted as appropriate for condition and market value.”

PDA Policy Update and Associated Revaluation

On March 31, 2023, the DoD Deputy Chief Financial Officer (DCFO) issued a clarification on PDA valuation for defense articles.³ The DCFO policy memorandum established that all DoD Components must use historical costs—less their accumulated depreciation (net book value [NBV]) for GE, which includes vehicles, aircraft, and other items subject to such depreciation.⁴ It also established a requirement to use the moving average cost (MAC) flow assumption for OM&S when determining the value of defense articles. OM&S includes such defense articles as spare parts, ammunition, and other items not subject to depreciation, provided to a foreign nation under the PDA.⁵ The DCFO policy memorandum also

² PD authorizes a specific dollar value cap for the drawdown authority, which may be executed in response to the international military or humanitarian crisis. Once the President signs the PD, the Defense Security Cooperation Agency initiates the PDA Execute Order.

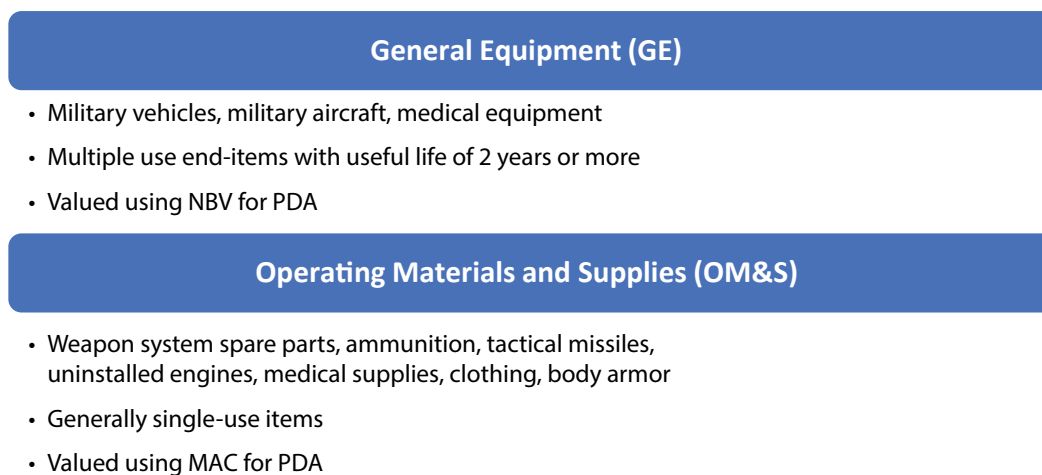
³ DCFO Memorandum, “Clarification of Presidential Drawdown Authority Valuation of Defense Articles,” March 31, 2023.

⁴ Depreciation is a decrease in value of the item over time, which accounts for the use, wear and tear, or obsolescence of an item.

⁵ OM&S consists of tangible personal property to be consumed in normal operations, including weapon systems spares, ammunition, tactical missiles, and uninstalled engines.

stated that this accounting policy update to the PDAs may require retroactive application. Before the DCFO policy memorandum on valuation of PDA, the DSCA Security Assistance Management Manual (SAMM) was based on DoD Regulation 7000.14-R, “DoD Financial Management Regulation (FMR),” volume 15, chapter 7. The DoD FMR stated that for defense articles intended to be replaced, a foreign country pays for “the estimated cost of replacement of such article, including the contract or production costs less any depreciation in the value of such article.” Prior to the DCFO policy memorandum, the DoD and its Components used an estimated replacement cost to value GE and OM&S associated with a PDA. Figure 2 describes what constitutes GE and OM&S.

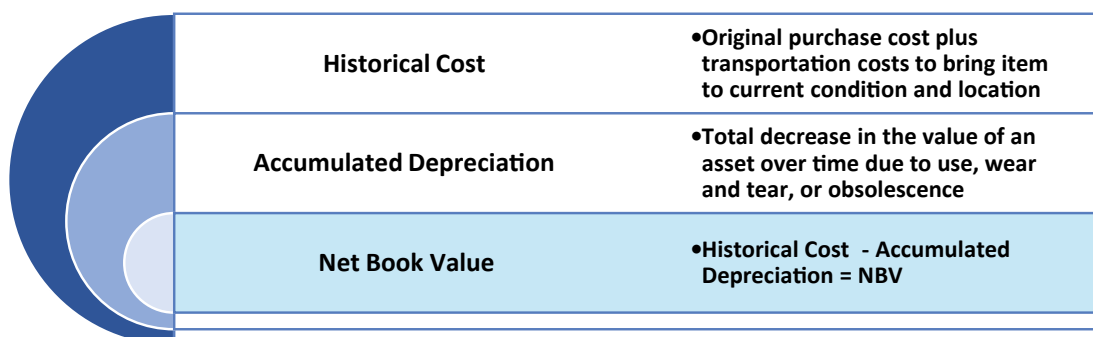
Figure 2. Overview of GE and OM&S



Source: The DoD OIG.

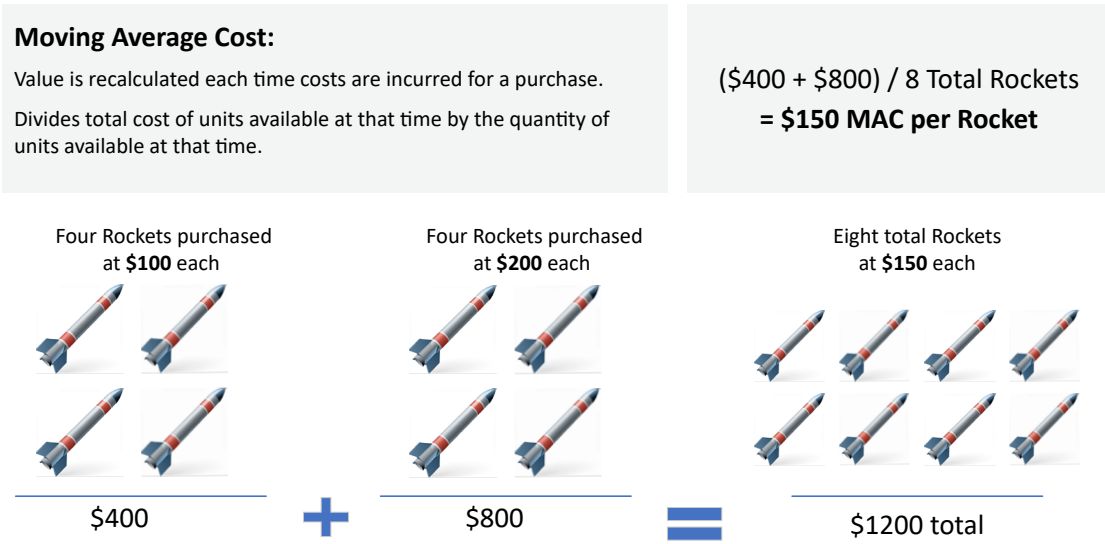
In accounting terms, NBV is the historical cost of GE minus the accumulated depreciation. When GE is placed in service, its value will decrease over its useful life. The valuation of items using MAC differs from NBV because under the MAC valuation, items do not lose their value over time and therefore, the valuation of OM&S is based on the historical cost. Figure 3 describes the factors involved in using NBV, and Figure 4 describes the MAC calculation.

Figure 3. Calculation of NBV for GE



Source: The DoD OIG.

Figure 4. Calculation of MAC for OM&S



Source: The DoD OIG.

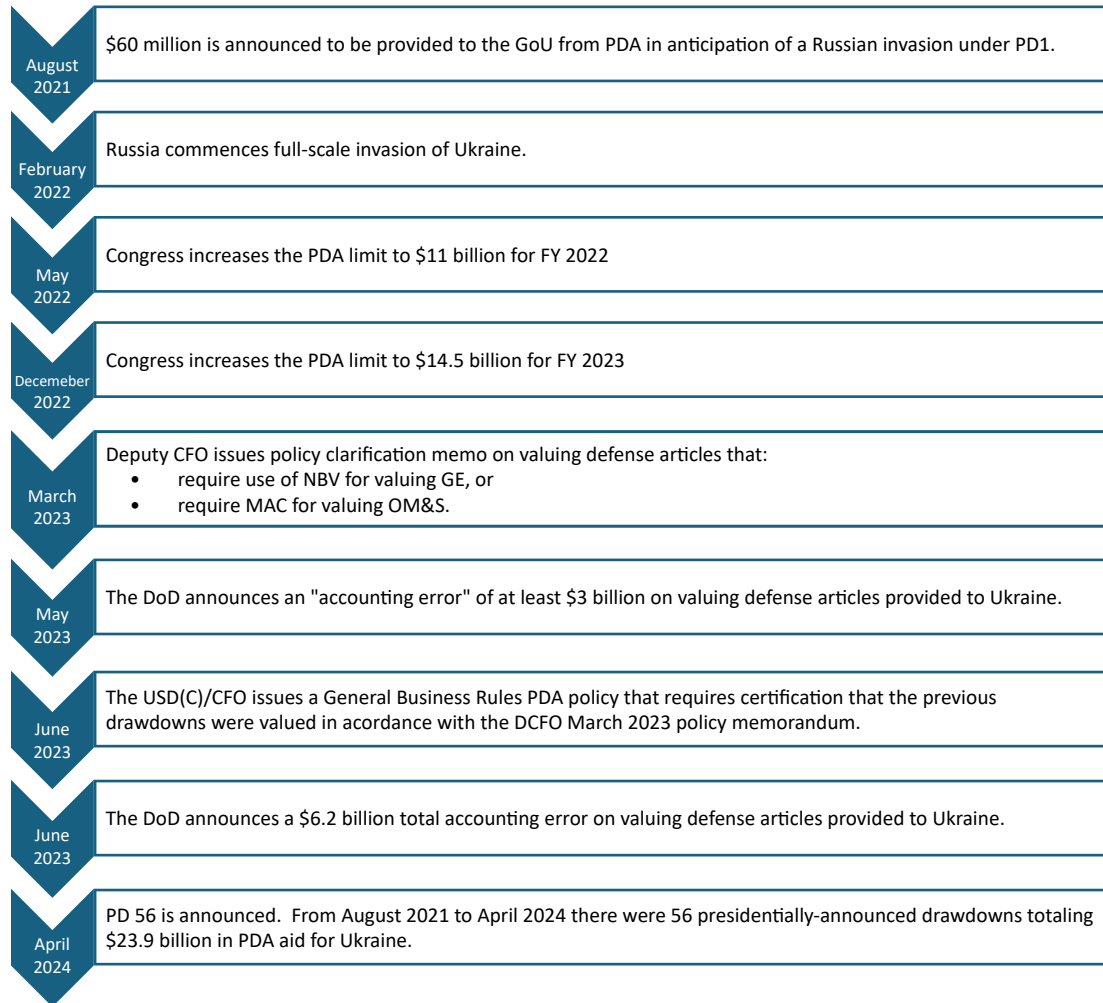
On June 1, 2023, the Under Secretary of Defense, (Comptroller)/Chief Financial Officer (USD[C]/CFO) provided the “General Business Rules for Use of Drawdown Authority and Replacement of Items for Services Provided Under Drawdown Authority.” The updated policy covers valuation of GE, OM&S, services, training, and transportation costs associated with PDA for the GoU Execute Orders (EXORDs). The USD(C)/CFO also required each MILDEP to certify that the drawdown valuation complied with the DCFO policy memorandum, requiring restatement of FYs 2022 and 2023 drawdown EXORDs that were not in compliance with the DCFO policy memorandum.

The DCFO policy memorandum reiterates the requirements of the DoD FMR and makes it clear that the DoD and its Components should not use replacement cost in determining the value of the PDA. During press statements made on June 20, 2023, regarding the valuation of PDA packages to the GoU, the DoD announced:

During the Department’s regular oversight of our execution of Presidential Drawdown Authority for Ukraine, we discovered inconsistencies in equipment valuation for Ukraine. In a significant number of cases, Services used replacement costs rather than net book value, thereby overestimating the value of equipment drawn down from U.S. stocks and provided to Ukraine.

The DoD announced a \$6.2 billion total PDA adjustment covering PDA for GoU EXORDs 1-37. The MILDEPs made the adjustments for the defense articles in the DSCA 1000 system. Figure 5 shows the timeline of events related to PDA for the GoU.

Figure 5. Timeline of Events for PDA to the GoU



Source: The DoD OIG.

Tables 1 and 2 break out the original EXORDs at estimated replacement costs and the revised EXORD amounts based on the DCFO policy memorandum, by Military Service Component.

Table 1. Original EXORD and Revised EXORD amounts by DoD Component for PDA EXORDs 1-37

Service Component	Original EXORD Amounts (in millions)	Revised EXORD Amounts (in millions)
Army	\$14,455.0	\$9,208.5
Marine Corps	2,533.5	1,475.3
Navy	1,337.8	980.3
Air Force	2,237.0	1,911.6
U.S. Special Operations Command	60.5	57.5
U.S. Transportation Command	126.5	0
Total	\$20,750.3	\$13,633.2

Sources: The DSCA and DoD OIG.

Table 2. Original EXORD and Revised EXORD amounts by Defense Article Type for PDA EXORDs 1-37

PDA Type	Original EXORD Amounts (in millions)	Revised EXORD Amounts (in millions)
Classified	\$2,119.8	\$1,753.1
GE	5,862.3	1,604.3
OM&S	9,833.7	8,044.3
Services	346.4	355.4
Training	82.6	81.1
Transportation	2,505.5	1,795.0
Total	\$20,750.3	\$13,633.2

Sources: The DSCA and DoD OIG.

DoD Financial Statement Audit Results for GE and OM&S

During FY 2023, the DoD and MILDEPs underwent their sixth financial statement audit. As in prior years, DoD OIG auditors issued a disclaimer of opinion on the DoD Agency-Wide Financial Statements. In addition, independent public accounting firms' auditors issued disclaimers of opinion on the financial statements of the Departments of the Army, Navy, and Air Force General Funds and Working Capital Funds. A disclaimer of opinion means that the DoD and MILDEPs could not provide sufficient evidence for the auditors to conclude whether the DoD presented the financial statements fairly and in accordance with generally accepted accounting principles. The auditors found that the DoD and MILDEPs have significant material

weaknesses, including the valuation of GE and OM&S.⁶ As a result of the material weaknesses, the DoD and MILDEPs cannot properly calculate NBV for valuing GE or MAC for valuing OM&S, including the defense articles provided to the GoU under PDA. While remediation efforts are ongoing, the DoD's and MILDEPs' audit remediation plans state that they are years away from eliminating many of the material weaknesses associated with valuing GE and OM&S.

⁶ A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statements in a timely manner.

Finding A

The DoD Is Unable to Correctly Value PDA GE Sent to the GoU

We determined that the DCFO policy memorandum complied with the FAA, as amended. However, the MILDEPs did not apply the policy correctly, contrary to their certifications that their adjustments aligned with the policy. The MILDEPs did not revalue GE in accordance with DoD regulations and policies for PDA EXORDs 1-37 for the GoU. Although the June 20, 2023 announcement stated that the DoD performed an analysis to revalue the PDA in accordance with standards, we found additional errors. Specifically, the MILDEPs did not use NBV when revaluing GE in accordance with DoD FMR Volume 4, Chapter 25, and incorrectly overvalued GE by at least \$653 million based on the nonstatistical sample we reviewed.

This occurred because the DoD and its Components lack adequate financial reporting systems, controls, and guidance over the PDA process, as reflected by the following.

- The MILDEPs' material weaknesses associated with financial reporting of GE prevented the DoD from accurately recording NBV for GE PDA.
- The DoD's management, tracking, and reporting processes and procedures for PDA were not built to sustain a large-scale, extended war effort using PDA to support an ally against a significant military power.
- The DoD and DSCA PDA policies did not provide MILDEPs with detailed procedures on establishing the estimated value of GE.
- Contrary to certification statements made by their Comptrollers, the MILDEPs did not have adequate controls or oversight of the process to ensure that all GE was fully and accurately revalued.
- The MILDEPs did not provide a complete list of GE, including the respective serial numbers (known as serialized GE), delivered to the GoU.
- DoD PDA policies did not address GE below the capitalization threshold.⁷

As a result, while the DoD announced an overvaluation of \$6.2 billion, our analysis determined that overvaluation was at least \$653 million higher based on our review of a nonstatistical sample of GE items.⁸ Additionally, it is possible that the MILDEPs did

⁷ A capitalization threshold is the amount that determines the financial reporting of an asset or expensing its cost. Only capitalized assets are depreciated; therefore, calculating depreciation for a non-capitalized asset would go against standard accounting practice for that item.

⁸ We selected a nonstatistical GE sample with an original EXORD value of \$4.5 billion out of a GE population with an original EXORD value of \$5.8 billion.

not reconcile the GE values for subsequent PDA EXORDs 38-56. The MILDEPs’ failure to properly value GE provided under PDA risks undermining confidence in how PDA authority is provided by Congress for the GoU and other partner nations.

Updates to PDA Guidance Comply with the FAA

We determined that the DCFO policy memorandum, along with the June 2023 update to the DSCA SAMM, complied with the FAA, as amended. The DoD and its Components previously used the DSCA SAMM as guidance for valuing defense articles provided through PDA. This guidance was based on DoD FMR volume 15, chapter 7, which used replacement cost of articles, adjusted for depreciation, when applicable.⁹ According to the FAA (22 U.S.C. § 2403), the value for PDA nonexcess defense articles is “the acquisition cost to the United States Government, adjusted as appropriate for condition and market value.” Acquisition cost of a defense article, such as a Stryker vehicle, is based on its original cost, or historical cost. Replacement cost is the price that an entity pays to replace an existing asset at current market prices with a similar asset. The recent updates to the DoD’s PDA policies align with historical costs for GE, which follows the FAA, as amended.

DoD Estimation Changes Associated with GE to the GoU

The MILDEPs did not value GE using NBV in accordance with DoD FMR policies identified in the DCFO and USD(C)/CFO’s policy memorandums dated March 31, 2023, and June 1, 2023, for PDA EXORDs 1-37 for the GoU.

The MILDEPs did not value GE using NBV in accordance with DoD FMR policies for PDA EXORDs 1-37 for the GoU.

Our review of 2,378 GE samples determined that the DoD overvalued GE by at least \$653 million for PDA EXORDs 1-37. Table 3 shows the MILDEPs originally valued all GE provided to the GoU at \$5.8 billion using estimated replacement cost, and the revised DoD values of \$1.6 billion based on the DCFO policy memorandum.

Table 3. Original and Revised Values of GE

MILDEP	Original GE EXORD Values (in millions)	Revised GE Values (in millions)
Army	\$5,280.6	\$1,101.2
Marine Corps	394.3	342.4
Navy	82.5	65.4
Air Force	88.9	88.2
Total	\$5,846.3	\$1,597.2

Source: The DSCA.

⁹ DoD FMR Volume 15, Chapter 7, “Pricing,” August 2022.

Table 4 shows the MILDEPs' valuations compared to our calculations for GE, resulting in a \$653 million difference for the GE sampled items.

Table 4. MILDEPs' Incorrect Revaluation of Sampled GE

MILDEP	Number of Sampled Items	Original PDA Value for Sampled GE (in millions)	Revised PDA Value for Sampled GE (in millions)	DoD OIG Calculated NBV (in millions)	DoD OIG Net Valuation Differences (in millions)*
Army	1,158	\$3,728.8	\$798.8	\$452.9	\$345.9
Marine Corps	1,084	266.7	298.7	44.2	254.6
Navy	68	41.5	24.4	11.6	12.8
Air Force	68	52.3	52.3	12.6	39.7
Total	2,378	\$4,089.3	\$1,174.2	\$521.3	\$653.0

* DoD OIG Net Valuation Difference is the difference between the revised PDA value and the DoD OIG Calculated NBV.

Sources: The DSCA and DoD OIG.

The Army Did Not Accurately Calculate NBV

The Army did not apply NBV when valuing GE in accordance with DoD FMR volume 4, chapter 25 in calculating its values of PDA GE it provided to the GoU. From our sample, we determined that the Army's use of average NBV caused its GE provided to the GoU to be overvalued by a net value of \$345.9 million for PDA EXORDs 1-37. The Army recalculated the PDA valuation by creating estimates (rather than using NBV, as required by the DCFO policy memorandum) for GE previously provided to the GoU under PDA. Army representatives explained that for the GE they revalued, the Army determined the average NBV for the entire fleet of a particular National Stock Number (NSN) and used that average as the estimated valuation for all the assets associated with that NSN. For example, the Army originally valued each Bradley Fighting Vehicle at \$9.6 million using replacement cost but revalued each Bradley Fighting Vehicle at \$1 million by using the average NBV of the entire fleet for a specific model of the Bradley Fighting Vehicle. The Army's use of average NBV took the total valuation of the 107 Bradley Fighting Vehicles we reviewed from \$1 billion to \$103 million. We calculated that the actual NBV of the 107 Bradley Fighting Vehicles was \$31.4 million. Army representatives said that many GE items were past their useful lives, so those items would have been fully depreciated down to an NBV of \$0. Army representatives also stated that they did not want to value GE provided through PDA at \$0.

In calculating the original PDA values, the Army used an upgraded weapon system when developing its estimated replacement cost compared to the GE actually provided to the GoU. The Army provided the GoU with certain aged weapon systems that are no longer produced and then used the cost of the current variant or replacement weapon system

as the value of the aged weapon system. For example, when determining the original PDA replacement value for the M113A3 Armored Personnel Carrier, the Army used the cost of a different asset, the Armored Multi-Purpose Vehicle, valued at \$3.4 million per unit. When the Army recalculated the PDA submissions using the value for M113A3s, it used the average NBV of all M113A3s, valued at \$71,220 per vehicle. The total difference in valuation between the replacement value and the average NBV for the M113A3 was \$1.36 billion of the entire \$4.18 billion for Army GE.



When we sampled the M113A3, the Army provided us with 300 of the 400 serial numbers we requested and we identified accounting records for 296 of the 300 vehicles which we used to calculate NBV. For 296 M113A3s in our sample, we calculated an NBV of \$16.6 million while the Army’s recalculation equaled \$21.1 million. Table 5 shows the Army’s estimated replacement cost amounts for each item in our sample, the Army’s revised value, our recalculations using NBV, and the resulting net differences.

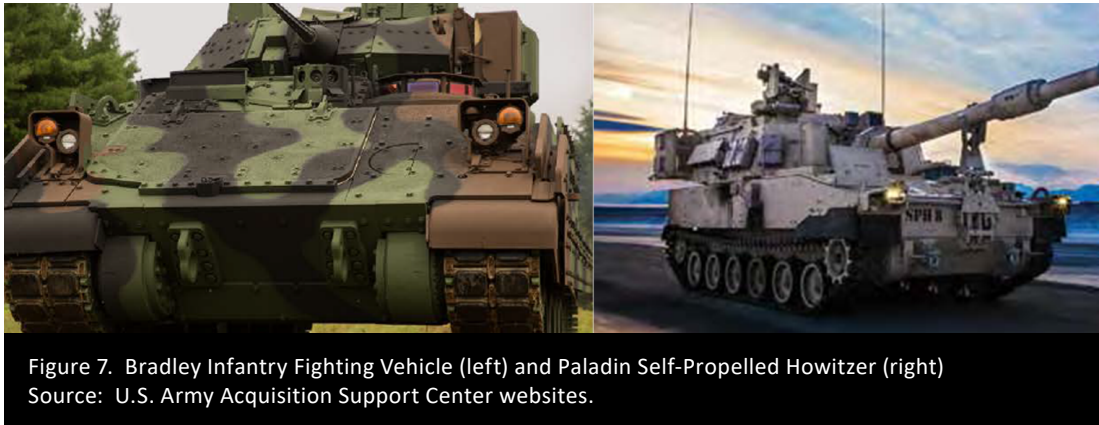
Table 5. Results of Army GE Sampled Items for PDA EXORDs 1-37

Sampled Army Weapon Systems	Number of Sampled Items	Original PDA Value (in millions)	Revised PDA Value (in millions)	DoD OIG Calculated NBV (in millions)	DoD OIG Net Valuation Difference (in millions)
Avenger	13	\$120.4	\$120.4	\$2.1	\$118.3
Stryker	99	331.7	117.1	21.6	95.5
Various Radar Systems	18	336.0	149.3	72.3	77.1
Bradley Fighting Vehicle	107	1,031.5	103.0	31.4	71.6
M113A3/A4	296	895.6	21.1	16.6	4.5

Table 5. Results of Army GE Sampled Items for PDA EXORDs 1-37 (cont'd)

Sampled Army Weapon Systems	Number of Sampled Items	Original PDA Value (in millions)	Revised PDA Value (in millions)	DoD OIG Calculated NBV (in millions)	DoD OIG Net Valuation Difference (in millions)
M119A3/A2 Howitzer	72	611.5	40.4	39.0	1.4
Paladin	14	161.0	6.5	8.9	(2.4)
Mine-Resistant Ambush Protected Vehicle (MRAP)	539	241.1	241.1	261.0	(19.9)
Total	1,158	\$3,728.8	\$798.8	\$452.9	\$345.9

Sources: The DSCA and DoD OIG.



Army officials stated that they did not use the actual NBV but instead, relied on estimates. According to Army officials, they used estimates because the Army has inaccurate accounting data in its financial accounting systems for GE, which have material weaknesses and significant notices of findings and recommendations associated from the various DoD financial statement audits.

The Marine Corps Did Not Accurately Calculate NBV

The Marine Corps did not apply NBV when valuing GE in accordance with DoD FMR volume 4, chapter 25 in calculating its values of PDA GE it provided to the GoU. From our sample, we determined that the Marine Corps' use of estimated replacement cost caused its GE provided to the GoU to be overvalued by \$254.6 million for PDA EXORDs 1-37. In reviewing Marine Corps PDA GE estimates, we determined that it used estimates for GE provided to the GoU for both the original and revised PDA valuation. Table 6 shows the Marine Corps' original estimated replacement cost amounts for each item in our sample, the Marine Corps' revised value, our recalculations using NBV, and the resulting net differences.

Table 6. Results of GE Sampled Items for PDA EXORDs 1-37

Sampled Marine Corps Weapon Systems	Number Of Sampled Items	Original PDA Value (in millions)	Revised PDA Value (in millions)	DoD OIG Calculated NBV (in millions)	DoD OIG Net Valuation Difference (in millions)
M777 155mm Howitzer	96	\$91.2	\$223.3	\$19.0	\$204.3
M-ATV	108	62.1	45.2	16.6	28.6
M1165 HMMWV	177	52.3	22.9	7.4	15.5
AN/TPQ-49 Radar System	9	5.2	5.2	1.2	4.1
M1123 HMMWV	194	54.5	2.0	0	2.0
Various Grenade Launchers	500	1.3	0.1	0	0.1
Total	1,084	\$266.7	\$298.7	\$44.2	\$254.6

Sources: The DSCA and DoD OIG.

For the M777 155mm Howitzer, the Marine Corps significantly increased the original estimate in response to the DCFO policy memorandum, raising the value to \$223.3 million, or \$132.1 million more than the original estimate. We reviewed the Marine Corps' accounting data for the sampled M777s provided to the GoU and determined the NBV as \$19 million. From this information, we determined that the Marine Corps overvalued the M777 by \$204.3 million. Based on accounting data provided by the Marine Corps, it overvalued the sampled GE sent to the GoU by a total of \$254.6 million. This is due to the Marine Corps not following the DCFO policy memorandum and not using NBV to revalue PDA provided to the GoU, contrary to the Assistant Secretary of the Navy (Financial Management & Comptroller) certifying that the revaluation was performed using NBV in accordance with DoD FMR volume 4, chapter 25.



Figure 8. High Mobility Multipurpose Wheeled Vehicle (HMMWV) (left) and 155 Millimeter Howitzer M777
Source: U.S. Army Acquisition Support Center websites.

The Navy Did Not Accurately Calculate NBV

The Navy did not consistently apply NBV when valuing GE in accordance with DoD FMR volume 4, chapter 25 in calculating its values of PDA GE it provided to the GoU. In reviewing the Navy’s PDA GE estimates, we determined that while the Navy did apply NBV to the Patrol Boats and High Mobility Multipurpose Wheeled Vehicles (HMMWVs), it did not apply NBV to the Combat Crafts, leaving them at the estimated replacement cost. From our sample, we determined that the Navy’s inconsistent use of NBV caused its GE provided to the GoU to be overvalued by approximately \$12.8 million for PDA EXORDs 1-37. The Navy fully depreciated the Patrol Boats prior to sending the Patrol Boats to the GoU, which caused the NBV to be \$0. Table 7 shows the Navy’s estimated replacement cost amounts for each item in our sample, the Navy’s revised value, our recalculations using NBV, and the resulting net differences.

Table 7. Results of Navy GE Sampled Items for PDA EXORDs 1-37

Sampled Navy Weapon Systems	Number of Sampled Items	Original PDA Value (in millions)	Revised PDA Value (in millions)	DoD OIG Calculated NBV (in millions)	DoD OIG Net Valuation Difference (in millions)
Combat Craft	6	\$21.0	\$21.0	\$8.9	\$12.1
Patrol Boat	12	7.5	0.7	0	0.7
HMMWV	50	13.0	2.7	2.7	0
Total	68	\$41.5	\$24.4	\$11.6	\$12.8

Sources: The DSCA and DoD OIG.



The Air Force Did Not Accurately Calculate NBV

The Air Force did not apply NBV when valuing GE in accordance with DoD FMR volume 4, chapter 25 in calculating its values of PDA GE it provided to the GoU. The Air Force left GE at estimated replacement cost, rather than revaluing GE at NBV, in accordance with the DCFO policy memorandum. From our sample, we determined that the Air Force’s use of estimated replacement cost caused its GE provided to the GoU to be overvalued by approximately \$39.7 million for PDA EXORDs 1-37. The Air Force did not provide serial numbers that tied to the accounting records for the HMMWVs; therefore, we were unable to calculate the HMMWV NBV. Table 8 shows the Air Force’s estimated replacement cost for each item in our sample, the Air Force’s revised value, our recalculations using NBV for assets we could test, and the resulting difference.

Table 8. Results of GE Sample Items for PDA EXORDs 1-37

Sampled Air Force Weapon Systems	Number of Sampled Items	Original PDA Value (in millions)	Revised PDA Value (in millions)	DoD OIG Calculated NBV (in millions)	DoD OIG Net Valuation Difference (in millions)
MaxxPro (MRAP)	50	\$38.3	\$38.3	\$9.3	\$29.0
Cougars (MRAP)	18	14.1	14.1	3.4	10.7
Total	68	\$52.4	\$52.4	\$12.7	\$39.7

Sources: The DSCA and DoD OIG.



MILDEPs Lack the Capability to Properly Perform PDA Requirements

MILDEPs lack adequate financial reporting systems, controls, and guidance over the complete PDA process. In addition, the PDA guidance provided by both OUSD(C)/CFO and DSCA did not cover the entire PDA process, including the reconciliation of estimated to actual values of defense articles provided to the GoU, as reflected by the following.

- The MILDEPs' material weaknesses associated with financial reporting of GE prevented the DoD from accurately calculating NBV for PDA.
- The DoD's management, tracking, and reporting processes and procedures for PDA were not built to sustain a large-scale, extended war effort using PDA to support an ally against a significant military power.
- The DoD and DSCA PDA policies did not provide MILDEPs with detailed procedures on establishing the estimated value of GE.
- Contrary to certification statements made by their Comptrollers, the MILDEPs did not have adequate controls or oversight of the process to ensure that all GE was accurately revalued.
- The MILDEPs did not provide a complete list of serialized GE to their financial management offices for GE delivered to the GoU, making it impossible to accurately calculate NBV.
- DoD PDA policies did not address GE below the capitalization threshold.

The DoD's Material Weaknesses Limit Its Ability to Effectively Use NBV

The MILDEPs' material weaknesses associated with financial reporting of GE contributed to the DoD Components inaccurately recording NBV used for PDA reporting. The MILDEPs' material weaknesses include the factors used in determining NBV, including the inability to:

- provide evidence that GE acquisition costs and associated historical costs are properly recorded;
- support the placed-in-service dates for GE;
- support useful lives of GE; and
- support the existence and completeness of GE.

In addition, as a matter of financial policy, the DoD does not calculate salvage value for its weapon systems; therefore, the MILDEPs depreciate DoD weapon systems to an NBV of \$0 over their useful lives. Using NBV can result in valuing a significant portion of GE provided under PDA at \$0, potentially providing the ability to deliver more defense articles under PDA to the GoU than Congress intended.

Using NBV can result in valuing a significant portion of GE provided under PDA at \$0, potentially providing the ability to deliver more defense articles under PDA to the GoU than Congress intended.

Army representatives stated that using NBV would result in some GE being valued at \$0, and as a result, would have no effect on the total drawdown authority provided by Congress under PDA for the GoU. Specifically, as of September 30, 2021, we identified that 212 (8.9 percent) of 2,378 equipment assets in our sample had an NBV of \$0. For the Army, we calculated that 436 (37.7 percent) of 1,158 equipment assets in our sample would have an NBV of \$0 by September 30, 2023, including 98 of 99 Stryker vehicles, by the time they were delivered to the GoU. The USD(C)/CFO, in coordination with the DSCA, should reevaluate the policy for valuing GE, including items with an NBV of \$0, provided through PDA and update the DSCA's SAMM accordingly.

Some GE Was Missing in Accountable Records Prior to Delivery to the GoU

The MILDEPs did not have accounting data for some GE provided to the GoU. We identified 29 assets, revalued at approximately \$67.1 million, that were not within the MILDEPs' accounting records as of September 30, 2021. For example, the Army did not have accounting data for 5 of 16 TPQ-36 Radar System assets, revalued at approximately \$28.9 million. Army representatives explained that for the GE they revalued, the Army determined the average NBV for the entire fleet of a particular NSN and used that average as the estimated valuation for all the assets associated with that NSN. Table 9 shows missing accounting data for the Army and the Marine Corps.

Table 9. Army and Marine Corps Missing Accounting Data

Military Service	Sampled Weapon System	Number of Assets Not In 9-30-21 Accounting Records	Revised PDA Value
Army	Stryker	1	\$1,182,903
Army	Bradley	6	5,772,911
Army	M113	4	284,881
Army	MPQ-64	2	26,500,000
Army	MRAP (MaxxPro)	8	3,206,022
Army	TPQ-36	5	28,874,276
Marine Corps	TPQ-49 Radar Set	2	1,162,000
Marine Corps	M1165 HMMWV	1	129,140
	Total	29	\$67,112,133

Sources: The U.S. Army, Marine Corps, and DoD OIG.

As a result of the MILDEPs not having the GE in the accounting records, we were unable to perform our analysis on these assets and the MILDEPs could have understated their financial statements. Additionally, the absence of GE in the accountable property system of record could cause MILDEPs to be unaware of the availability of assets.

DSCA 1000 Is Not Designed for Large-Scale Operations

The DoD's management, tracking, and reporting processes and procedures for PDA were not built to sustain a large-scale, extended war effort using PDA to support an ally against a significant military power. The DSCA is responsible for overseeing and implementing the DoD's PDA program. The DSCA 1000 system is the information management system used for tracking, maintaining, and aggregating drawdown data to fulfill management information needs and meet legislative reporting requirements. The DSCA 1000 system is a manually intensive system, with no interfacing capabilities to extract MILDEPs' financial reporting information necessary to populate the accounting data needed to comply with the DCFO policy memorandum for GE. The current DSCA 1000 system environment requires DoD Components to manually input estimates of all values and costs associated with drawdown, including GE, OM&S, services, training, and transportation. The DoD Components then must track delivery of each drawdown item, and manually record actual costs into the DSCA 1000 system, reconciling any differences between the projected value and the actual value of the delivered items. We identified that the DSCA 1000 system does not track GE by serial number or date of delivery. Without this information, it is impossible to determine the GE's NBV.

The DSCA designed the DSCA 1000 system and procedures surrounding PDA EXORDs based on the FAA, which capped PDA at \$100 million per year. Congress increased the PDA limit for aid to the GoU to \$25.6 billion for FYs 2021 through 2023. As of March 2024, the DoD calculated that it has provided \$18.3 billion in support to GoU, the vast majority of it during FYs 2022 and 2023. Though the manually intensive system may have been adequate for managing PDA of up to \$100 million, users could benefit from the system being automated to better manage the billions of dollars currently authorized under PDA. The USD for Policy and Director, DSCA should perform a cost-benefit analysis of upgrading the manually intensive DSCA 1000 system environment to provide automated information, which includes all required data fields, to support DoD Components' tracking and reporting of PDA.

DoD Guidance on PDA Estimates Lack Detail

The recently updated DSCA SAMM guidance does not differentiate PDA valuation when valuing the estimated cost of the PDA prior to issuing an EXORD, versus the value of the defense articles after delivery to the recipient nation. The guidance has defense articles being valued at two key points. The first valuation point occurs when the MILDEPs provide projected availability of assets and estimated valuation of those assets for inclusion into the PD and the initial PDA EXORD issued by DSCA. The MILDEPs estimated the value of the PDA since the exact number and specific type of GE items to be shipped was not yet known. This is also true for OM&S, transportation, training, and services, as these are all estimated costs placed on the PDA EXORDs. For instance, the Army takes the average NBV for all GE under an NSN, and records it onto the PDA EXORD, multiplied by the quantity of that NSN provided under the drawdown. For purposes of the initial valuation, this estimation approach is reasonable and fulfills the DSCA SAMM guidance of ensuring "that projected values are as accurate as possible."

The second valuation point should occur when the MILDEPs deliver the goods or perform the services provided under PDA. The DSCA SAMM requires the MILDEPs to record the actual costs of the items, including GE, OM&S, transportation, training, and services provided under the PDA EXORD. The MILDEPs must perform reconciliations between the initial estimated costs versus the actual value of defense articles provided under PDA. The DSCA SAMM does not provide guidance on valuing initial estimates, and only provides guidance on the actual costs, such as NBV. The USD for Policy and Director, DSCA should update the SAMM to include information on developing initial estimates for valuing defense articles on the PD and DSCA PDA EXORDs, and guidance on updating initial estimated costs to actual costs of the PDA EXORDs.

MILDEPs' Revaluation Lacked Completeness, Despite Certification Memorandums

The MILDEPs did not have adequate controls or oversight in performing a full review of GoU PDA EXORDs 1-37 to ensure that all assets were accurately revalued in accordance

The results of our audit showed that the methodologies used to value items provided under PDA did not comply with the policy.

with the DCFO policy memorandum.

On June 1, 2023, the USD(C)/CFO signed a policy memorandum requiring each DoD Component to certify that its drawdown valuation for GE complied with

DoD FMR volume 4, chapter 25. Despite each of the MILDEPs providing certifications that their Component complied with the DCFO policy memorandum, the results of our audit showed that the methodologies used to value items provided under PDA did not comply with the policy.

For example, on June 9, 2023, the Assistant Secretary of the Army, Financial Management and Comptroller signed a certification memorandum stating that the Army applied the GE valuation “in accordance with DoD 7000.14-R, DoD Financial Management Regulation, Volume 4, Chapters 4 and 25, and the Defense Security Cooperation Agency, Security Assistance Management Manual.” Additionally, they made the following statement in the certification memorandum:

Due to timing constraints during the PDA request process, the Army uses an average unit cost by National Stock Number instead of an actual net book value (NBV). When the specific serialized asset is identified for PDA and donated to a foreign ally, the value is finalized using the NBV and dropped from Army's books. Subsequent changes to EXORDs may result in different values. If necessary, the Army will retroactively reconcile to actuals per serialized item within 90 days of the publication of the OSD-C General Business Rules published on 1 June 2023 or within 90 days of delivery for items not yet delivered.

The June 2023 DSCA SAMM guidance states that the actual value of drawdowns should be reported to DSCA in the DSCA 1000 system no later than 90 days after delivery of the equipment. As of March 14, 2024, the Army has not updated PDA EXORDs 1-37 estimated NBV to actual NBV for GE, despite stating it would do so in its June 9, 2023 certification to USD(C)/CFO. The USD(C)/CFO, in coordination with the MILDEPs, should require MILDEPs to perform a full reconciliation of GE provided to the GoU under PDA EXORDs 1-37 to ensure those assets are revalued according to DoD's PDA policies. MILDEPs should also perform a review of PDA EXORDs 38-56 to ensure that the EXORDs complied with the DoD's PDA policies.

MILDEPs Were Unable to Provide a Complete List of Serialized GE

MILDEPs did not provide a complete list of serialized GE delivered to the GoU, making it impossible to accurately calculate NBV. Specifically, as Table 10 shows, the Army and Air Force could not provide serial numbers for 152 of the GE items in our sample. For example, the Air Force did not provide any serial numbers for the 39 HMMWVs provided to the GoU.

Table 10. Army and Air Force Missing Serial Numbers

Military Service	Sampled Weapon Systems	Number of Sample Items Requested	Number of Serial Numbers Received	Difference
Army	M113	400	300	100
Army	MRAPs Mine Sweeper	40	39	1
Army	Paladin	18	14	4
Army	TPQ-36 Radar System	24	16	8
Air Force	HMMWV	39	0	39
	Total	521	369	152

The U.S. Army, U.S. Air Force, and DoD OIG.

In addition, the Army and Marine Corps provided 243 more serial numbers than we requested because the MILDEPs were unable to extract what was provided to the GoU by PDA EXORD. Table 11 shows that the Army provided 201 additional serial numbers for the MaxxPro MRAP.

Table 11. Sample Items for Which the Army and Marine Corps Provided Excessive Serial Numbers

Military Service	Sampled Weapon Systems	Number of Sample Items Requested	Quantity of Serial Numbers Received	Difference
Army	Avenger	12	13	1
Army	Bradley	109	113	4
Army	M119 (Howitzer)	56	72	16
Army	MRAP (MaxxPro)	307	508	201
Army	Stryker	90	100	10
Marine Corps	AN/TPQ-49 Radar Set	4	11	7
Marine Corps	M1123 HMMWV	190	194	4
	Total	768	1,011	243

The U.S. Army, Marine Corps, and DoD OIG.

Serial numbers are needed to tie the GE asset to the accounting records to calculate the asset's NBV. Therefore, without serial numbers we could not calculate the NBV for the assets in our sample. In addition, without delivery dates, the MILDEPs could not accurately associate specific pieces of GE with the PDA EXORD it was provided under. The USD for Policy and Director of DSCA, in coordination with the OUSD for Acquisition and Sustainment, should develop a centralized repository of serialized GE provided under PDA that tracks the assets by serial number and by specific PDA under which the serialized GE was provided.

DoD PDA Policy Does Not Include GE Below the Capitalization Threshold

The DCFO policy memorandum does not address GE that is below the capitalization threshold. The current capitalization threshold for GE is \$250,000 for the Army, \$100,000 for the Marine Corps, \$1 million for the Navy and Air Force General Funds, and \$250,000 for the Navy and Air Force Working Capital Funds. DoD FMR volume 4, chapter 25 states:

...a general equipment item with a recorded cost that equals or exceeds the applicable capitalization threshold and has a useful life of at least two years must be capitalized as an asset in the appropriate DoD Component's accounting records and depreciated over its useful life. A general equipment item with a recorded cost below the applicable capitalization threshold or which has a useful life of less than two years must be expensed.

This means that any GE item with a value less than the Component's capitalization threshold is immediately expensed and valued at \$0 in the accounting records once it is placed in service. For example, the Marine Corps had 694 GE assets that it did not provide accounting data for because the items were expensed, meaning they had an NBV of \$0 immediately after the items were placed in service. The USD(C)/CFO, in coordination with the DSCA, should determine whether GE below the capitalization threshold provided through PDA should be valued at other than NBV and if so, update the DSCA SAMM accordingly and alert the MILDEPs to this change.

DoD Revaluation of GE Sent to the GoU Was Understated

As a result, the DoD reported an overvaluation of \$6.2 billion, that should have been reported as at least \$653 million higher, based on our review of GE samples. Additionally, it is possible that the MILDEPs did not reconcile the GE values for subsequent PDA EXORDs 38-56. Table 12 shows the MILDEPs' revised PDA value, our recalculations, and the resulting differences.

Table 12. MILDEPs' Incorrect Revaluation of Sampled GE

MILDEP	Revised PDA Value for Sampled GE (in millions)	DoD OIG Calculated NBV (in millions)	DoD OIG Net Valuation Differences (in millions)
Army	\$798.9	\$452.9	\$345.9
Marine Corps	298.7	44.2	254.6
Navy	24.4	11.6	12.8
Air Force	52.3	12.6	39.7
Total	\$1,174.3	\$521.3	\$653.0

Sources: The DSCA and DoD OIG.

The MILDEPs did not comply with the requirements of the DCFO policy memorandum. None of the MILDEPs consistently used NBV to calculate their GE revaluation. The Army, Marine Corps, and Air Force used a combination of average NBV or estimated replacement cost to value GE and did not revalue those assets at NBV. While the Navy used NBV, it did not consistently apply it to all of its GE assets. The DoD has limited assurance that the values it reported are correct, contrary to the DoD Components providing certifications that their PDA revaluation was accurate and calculated in accordance with DoD policy. The DoD's failure to properly value GE provided to the GoU under PDA limits its ability to manage the use of PDA and could negatively impact the public's perception of the accuracy of information regarding PDA supporting the GoU.

Other Matters of Interest

The DoD Is Leaving GE in Accountable Records after Delivery to the GoU

The Army did not remove all GE from accountable property systems of record after delivery to the GoU. We identified 96 GE assets (8.3 percent) of the 1,158 reviewed that were not removed from the accountable property system of record as of September 30, 2023. In response to our preliminary analysis, the Army removed 89 of the 96 GE assets by December 31, 2023, leaving 7 GE assets in the system. As a result of leaving the GE in the accounting records after delivery of GE to the GoU, the Army overstated its financial statements by the value of the 96 GE assets that were in the financial records as of September 30, 2023. Additionally, leaving the GE in the accountable property system of record could cause the Army to report as available, GE that is no longer in the possession of the Army and was already provided to the GoU.¹⁰ The Army's source system for this information is the Defense Property Accountability System, which is overseen by the Office of the Deputy Chief of Staff, Army G-4.

¹⁰ This matter does not explicitly deal with PDA valuation and will be addressed as part of the Audit of the Army's financial statements; therefore, we are not making a recommendation in this report.

Recommendations, Management Comments, and Our Response

Recommendation A.1

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- a. In coordination with the Defense Security Cooperation Agency, reevaluate the policy for valuing General Equipment, including items with a net book value of zero, provided through Presidential Drawdown Authority and update the Defense Security Cooperation Agency's Security Assistance Management Manual accordingly.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The USD(C)/CFO agreed with the recommendation, stating that valuing items at zero dollars for the purposes of measuring PDA could theoretically result in drawing down large quantities of certain articles without impact to the statutory cap, which they did not believe is the intent of the FAA of 1961. The USD(C)/CFO stated that for the purposes of measuring value of items drawn down against the authorized dollar value ceiling, it is appropriate and reasonable to assign a value to the fully depreciated items, and that a DoD working group with relevant stakeholders will update existing PDA policies accordingly.

Our Response

Comments from the USD(C)/CFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once the DoD provides the updated DSCA SAMM and PDA valuation policy covering GE with an NBV of zero.

- b. In coordination with the following officials, require Military Departments to perform a full reconciliation of General Equipment provided to the Government of Ukraine under Presidential Drawdown Authority Execute Orders 1-37 to ensure those assets are revalued according to the DoD's Presidential Drawdown Authority policies. The following Military Department offices should also perform a review of Presidential Drawdown Authority Execute Orders 38-56 to ensure that the Execute Orders complied with DoD's Presidential Drawdown Authority policies:**
 - 1. Assistant Secretary of the Army (Financial Management and Comptroller)**
 - 2. Assistant Secretary of the Navy (Financial Management and Comptroller)**

3. **Assistant Secretary of the Air Force (Financial Management and Comptroller)**
4. **Assistant Deputy Commandant for Programs and Resources of the Marine Corps**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The USD(C)/CFO agreed with the recommendation, stating that the MILDEPs concurred with the recommendations and were already performing reconciliations of items provided to the GoU under the PDA to ensure they are valued in accordance with the valuation policy.

Our Response

Comments from the USD(C)/CFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once the DoD provides the results of the MILDEPs' reconciliations to demonstrate a full GE revaluation was performed for PDA EXORDs 1-37, and that a review of subsequent EXORDs 38-56 was performed.

- c. **In coordination with the Defense Security Cooperation Agency, determine whether General Equipment below the capitalization threshold provided through Presidential Drawdown Authority should be valued at other than net book value and if so, update the Defense Security Cooperation Agency's Security Assistance Management Manual accordingly and alert the MILDEPs to this change.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The USD(C)/CFO agreed with the recommendation, stating that the GE capitalization threshold varies for different DoD Components, ranging from \$250,000 to \$1 million. For regular financial statement reporting purposes, and in accordance with Generally Accepted Accounting Principles, GE below the capitalization threshold is expensed in the period acquired. However, for the purposes of measuring PDA against the authorized dollar value ceiling, it is appropriate and reasonable to include these items regardless of their non-capitalization on the financial statements. The DoD has formed a working group with the relevant PDA stakeholders across the DoD tasked with defining the appropriate valuation methodology for GE below capitalization threshold and updating the PDA valuation policy accordingly. The working group has determined the most efficient approach for valuing GE using the existing data and systems and is currently in the process of updating the PDA valuation policy accordingly.

Our Response

Comments from the USD(C)/CFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once the DoD provides the updated the DSCA SAMM and PDA valuation policy covering GE below the capitalization threshold.

Recommendation A.2

We recommend that the Under Secretary of Defense for Policy and the Director, Defense Security Cooperation Agency:

- a. Perform a cost-benefit analysis of upgrading the manually-intensive Defense Security Cooperation Agency 1000 system environment to provide automated information, which includes all required data fields, to support DoD Components' tracking and reporting of Presidential Drawdown Authority.**

Under Secretary of Defense for Policy and Director, Defense Security Cooperation Agency Comments

The USD(C)/CFO, responding for the USD for Policy, and the Director, DSCA, agreed with the recommendation, stating that the DSCA fully acknowledged the current limitations and scope of the DSCA 1000 System. The USD(C)/CFO estimates that by July 31, 2024, the DSCA 1000 system will enable the MILDEPs to include attachments to DSCA 1000 system records to substantiate reported deliveries, and DSCA also will complete a study with regard to modernizing the DSCA 1000 System.

Our Response

Comments from the USD(C)/CFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once the USD for Policy and the Director, DSCA, provide the results of their study and the documented updates and enhancements to the DSCA 1000 system.

- b. Update the Security Assistance Management Manual to include information on developing initial estimates for valuing defense articles on the Presidential Determination and Defense Security Cooperation Agency Presidential Drawdown Authority Execute Orders, and guidance on updating initial estimated costs to actual costs of the Presidential Drawdown Authority Execute Orders.**

Under Secretary of Defense for Policy and Director, Defense Security Cooperation Agency Comments

The USD(C)/CFO, responding for the USD for Policy, and the Director, DSCA, agreed with the recommendation, stating that the DSCA will continue to work closely with OUSD(C)/CFO and MILDEPs to oversee the revaluation of PDA assets and to further refine and clarify PDA policy and procedural guidance.

Our Response

Comments from the USD(C)/CFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once the USD for Policy and Director, DSCA, provide the updated DSCA SAMM and associated PDA policy and procedural guidance.

- c. In coordination with the Office of the Under Secretary of Defense for Acquisition and Sustainment, develop a centralized repository of serialized General Equipment provided under Presidential Drawdown Authority that tracks the assets by serial number and by specific Presidential Drawdown Authority under which the serialized General Equipment was provided.**

Under Secretary of Defense for Policy and Director, Defense Security Cooperation Agency Comments

The USD(C)/CFO, responding for the USD for Policy, and Director, DSCA, agreed with the recommendation, with the caveat that the Office of the Under Secretary of Defense for Acquisition and Sustainment (USD(A&S)) should be the office of primary responsibility for this action, as the DoD's ability to further link serialized GE to deliveries under the PDA are contingent on the DoD's ability to access this type of data. The DSCA does not own this data, and, therefore, would be reliant on the Office of the USD(A&S) to identify the appropriate source systems to link to. Once accurate and reliable data from authoritative source systems becomes available, the DSCA can work with the appropriate DoD stakeholders to incorporate this data either into a modernized DSCA 1000 System, or to link PDA data with serialized GE data through dashboards or data visualizations in Advancing Analytics, better known as ADVANA.

Our Response

Comments from the USD(C)/CFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. While we agree that the Office of the USD(A&S) plays a significant role and must make serialized asset lists provided under the PDA available for DoD reporting requirements, the DSCA must develop the environment to house and maintain PDA-specific data

provided by the Office of the USD(A&S). This is a shared responsibility. As such, we are keeping the recommendation directed at the USD for Policy and DSCA, in coordination with the Office of the USD(A&S). We will close the recommendation once the DSCA provides the support for where and how the serialized GE will be tracked and stored for PDA.

Finding B

MILDEPs Inconsistently Applied Estimates of OM&S for GoU PDA

We determined that the DCFO policy memorandum complied with the FAA, as amended. However, the MILDEPs did not comply with the policy, contrary to their certifications that their adjustments aligned with the policy. The MILDEPs did not revalue OM&S in accordance with DoD regulations and policies for PDA EXORDs 1-37 for the GoU. Although the June 20, 2023 announcement stated that the DoD performed an analysis to revalue the PDA in accordance with standards, we found additional errors. Specifically, the MILDEPs did not use MAC or an acceptable equivalent when revaluing OM&S in accordance with DoD FMR volume 4, chapter 4, and incorrectly overvalued OM&S by at least \$1.25 billion in the sample that we reviewed.¹¹

This occurred because the MILDEPs did not fully monitor and reconcile the revaluation of PDA EXORDs 1-37 to ensure that all assets were accurately revalued in accordance with the DCFO policy memorandum. Additionally, the MILDEPs were unable to properly use MAC for PDA valuation of OM&S due to significant material weaknesses related to financial reporting. As a result, the MILDEPs' revaluation should have been reported as at least \$1.25 billion more than the previously reported \$6.2 billion, based on our OM&S sample. The MILDEPs' failure to properly value OM&S provided under PDA risks undermining confidence in how PDA authority is provided by Congress for the GoU and other partner nations.

DoD Accounting Errors Associated with OM&S to the GoU

The MILDEPs did not value OM&S in accordance with DoD regulations and policies for PDA EXORDs 1-37 for the GoU. Specifically, the MILDEPs did not use MAC or an acceptable equivalent when valuing OM&S as required by DoD FMR volume 4, chapter 4, and instead left the OM&S at an estimated replacement cost. Because MILDEPs used estimated replacement cost, we determined that OM&S was incorrectly valued by \$1.25 billion.

The MILDEPs did not use MAC or an acceptable equivalent when valuing OM&S and instead left the OM&S at an estimated replacement cost.

¹¹ We selected a nonstatistical OM&S sample with an original EXORD value of \$6 billion out of an OM&S population with an original EXORD value of \$9.8 billion.

The Army, Marine Corps, and Navy did not fully use MAC for recording OM&S on their financial statements, but rather used standard price.¹² Due to the other MILDEPs using standard price and the material weaknesses in the use of MAC reported during the financial statement audits of the MILDEPs, we based our revaluation on standard price and MILDEP accounting data. Table 13 shows the MILDEPs originally valued all OM&S provided to the GoU at \$9.8 billion using estimated replacement cost, and the revised DoD values of \$8 billion based on the DCFO policy memorandum.

Table 13. Original and Revised Values of OM&S

MILDEP	Original OM&S EXORD Values (in millions)	Revised OM&S Values (in millions)
Army	\$6,971.7	\$6,218.5
Marine Corps	1,969.3	998.1
Navy	125.4	130.1
Air Force	728.4	653.2
Total	\$9,794.8	\$7,999.9

Sources: The DSCA and DoD OIG.

Table 14 shows the MILDEPs' valuations compared to our calculations for OM&S, resulting in a \$1.25 billion difference on the OM&S sampled items.

Table 14. MILDEPs' Incorrect Revaluation of Sampled OM&S

MILDEP	Original PDA Value for Sampled OM&S (in millions)	Revised PDA Value for Sampled OM&S (in millions)	DoD OIG Calculated OM&S Value (in millions)	DoD OIG Net Valuation Differences (in millions)*
Army	\$3,934.5	\$3,312.8	\$2,189.4	\$1,123.4
Marine Corps	1,349.7	517.0	392.9	124.1
Navy	63.0	63.0	58.6	4.4
Air Force	676.6	615.2	615.2	0
Total	\$6,023.8	\$4,508.0	\$3,256.1	\$1,251.9

* DoD OIG Net Valuation Difference is the difference between the revised PDA value and the DoD OIG Calculated Value.

Sources: The DSCA and DoD OIG.

¹² Standard price is the price that reflects the DoD's stabilized price policy requiring that item pricing remain constant throughout a fiscal year for inventory control point managed items, such as for defense articles. The standard price is calculated based on factors including the replenishment cost of the item plus surcharges to recover costs for transportation, inventory loss, obsolescence and maintenance, depreciation, and supply operations.

The Army Did Not Accurately Calculate MAC

The Army did not use MAC when revaluing OM&S provided to the GoU in accordance with the DCFO policy memorandum. We determined that the Army overvalued OM&S for items in our sample by approximately \$1.12 billion for PDA EXORDs 1-37. The Army did revalue some OM&S (Javelin and Stinger missiles) using standard price. However, the Army did not revalue the majority of OM&S we sampled, leaving most incorrectly valued at an estimated replacement value. Army officials explained that the omission of the revaluation of some OM&S was due to the quick turnaround necessary after the policy clarification memorandum was issued. Ultimately, the Army explained that this was a result of circumstances and was not an intentional omission. Table 15 shows the Army's original PDA value for each type of OM&S in our sample, the Army's revised PDA value, our recalculations using standard price, and the resulting net differences.

Table 15. Results of Army OM&S Sampled Items for PDA EXORDs 1-37

Sampled Army OM&S	Original PDA Value (in millions)	Revised PDA Value (in millions)	DoD OIG Calculated Value Using Standard Price (in millions)*	DoD OIG Net Valuation Difference (in millions)
M795 155mm Round	\$581.9	\$581.9	\$151.0	\$430.9
M739 Fuse	324.5	324.5	38.7	285.8
M549 155mm Round	349.4	349.4	111.6	237.8
M792 25mm Round	112.2	112.2	18.1	94.1
M119A2 155mm Charge	92.0	92.0	15.6	76.4
M203A1 155mm Round	75.3	75.3	12.3	63.0
M729 155mm Round	131.6	131.6	69.6	62.0
M232A1 Round	81.9	81.9	34.8	47.1
M433 40mm Round	38.5	38.5	11.9	26.6
M430 40mm Round	13.6	13.6	2.6	11.0
M136A1 Rocket	23.6	23.6	15.0	8.6
Javelin	1,061.0	662.8	662.8	0
Stinger Missile	175.7	17.9	18.2	(0.3)
GMLRS	198.1	133.1	151.8	(18.7)
C445 105mm Round	63.0	63.0	99.0	(36.0)
M982 Excalibur Projectile	612.2	611.5	776.4	(164.9)
Total	\$3,934.5	\$3,312.8	\$2,189.4	\$1,123.4

* The DoD OIG took the original EXORD quantity for that OM&S defense article and multiplied it by the standard price for that particular OM&S defense article.

Sources: The DSCA and DoD OIG.

For example, the Army did not revalue M795 155mm rounds and left the value at an estimated replacement cost of \$581.9 million. We determined that the Army overvalued M795 155mm rounds by approximately \$430.9 million. Additionally, the Army revalued Excaliburs, an extended range artillery projectile, at \$611.5 million; however, we determined that the Army undervalued Excaliburs by approximately \$164.9 million.



Figure 11. Soldiers firing a Javelin Missile (left) and carrying an Excalibur (right)
Source: U.S. Army Acquisition Support Center website.

Army officials stated that the Army values its OM&S for financial reporting purposes at standard price because the Army does not currently calculate MAC for its OM&S. The Army has a financial statement material weakness associated with valuing OM&S in accordance with generally accepted accounting principles.

Army Corrective Action

In response to our analysis, Army officials agreed with our findings and took corrective action by developing a planned approach for revaluing OM&S assets provided under PDA. The Army provided its detailed planned corrective action approach for PDA OM&S revaluation using standard price on March 29, 2024. The Army's planned approach will update the Army OM&S values in the DSCA 1000 system by lowering the OM&S values by approximately \$1.1 billion.

The Marine Corps Did Not Accurately Calculate MAC

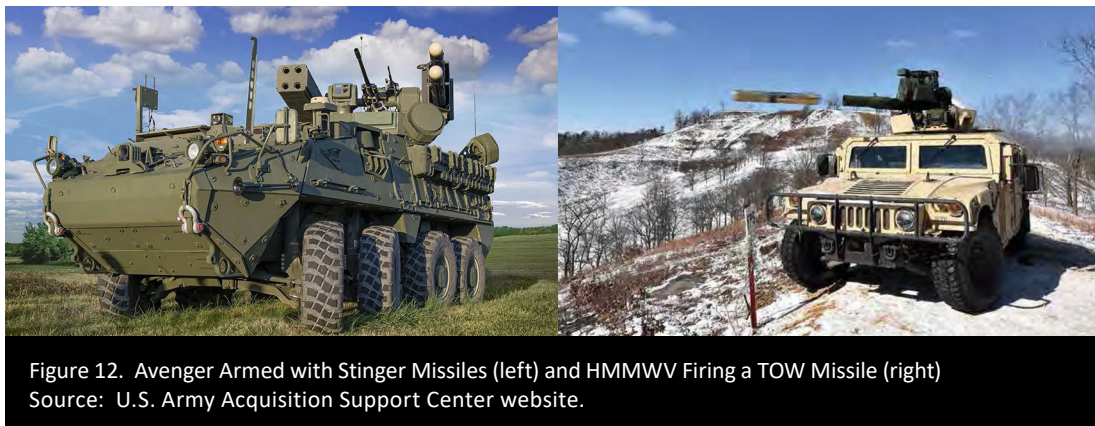
The Marine Corps did not use MAC when revaluing OM&S, in accordance with the DCFO policy memorandum. The Marine Corps revalued most of its OM&S using standard price. However, the Marine Corps left OM&S on PDA EXORDs 23 and 36 at replacement cost, causing the OM&S to be overvalued by \$124.1 million. Marine Corps officials explained that when they revalued the EXORDs, due to an oversight, EXORDs 23 and 36 were not revalued. Table 16 shows the Marine Corps' original PDA value for each item of OM&S in our sample, the Marine Corps' revised PDA value, our recalculations using standard price, and the resulting net differences.

Table 16. Results of Marine Corps OM&S Sampled Items for PDA EXORDs 1-37

Sampled Marine Corps OM&S	Original PDA Value (in millions)	Revised PDA Value (in millions)	DoD OIG Calculated Value Using Standard Price (in millions)	DoD OIG Net Valuation Difference (in millions)
BGM-71 TOW Missile	\$258.9	\$126.7	\$33.0	\$93.7
M795 155mm	52.8	43.8	26.8	17.0
40mm Linked HEDP	32.6	22.1	8.1	14.0
155mm Modular Artillery Charge	69.4	39.4	28.2	11.2
Excalibur Projectile	83.6	83.6	73.5	10.1
Stinger Missile	450.5	60.0	59.9	0.1
FGM-148C Missile	177.6	80.4	80.3	0.1
40mm Linked Grenades	13.9	3.4	3.4	0
M549 155mm	50.2	6.4	6.4	0
M741 155mm	123.3	9.7	9.7	0
M795 155mm HEDP	36.9	41.5	63.6	(22.1)
Total	\$1,349.7	\$517.0	\$392.9	\$124.1

Sources: The DSCA and DoD OIG.

For example, while the Marine Corps revalued other Tube-Launched, Optically Tracked, Wire-Guided (TOW) Missiles using standard price, we determined that it left TOW Missiles under PDA EXORD 36 at replacement cost, overvaluing the TOW Missiles by \$93.7 million.



Marine Corps Corrective Action

In response to our analysis, the Marine Corps agreed with our findings and took corrective action by revaluing OM&S assets we sampled provided under PDAs 23 and 36. The Marine Corps reported its original revaluation at \$517 million and as of January 30, 2024, the Marine Corps revised the PDA total based on our sample results to \$384.2 million for a total adjustment of \$132.8 million.

The Navy Did Not Accurately Calculate MAC

The Navy did not use MAC when revaluing OM&S in accordance with the DCFO policy memorandum. The Navy did not revalue OM&S, leaving it at the estimated replacement value. From our sample, we determined that the Navy overvalued OM&S by approximately \$4.4 million for PDA EXORDs 1-37. Table 17 shows the Navy’s original PDA value amounts for each OM&S in our sample, the Navy’s revised PDA value, our recalculations using standard price, and the resulting net differences.¹³

Table 17. Results of Navy OM&S Sampled Items for PDA EXORDs 1-37

Sampled Navy OM&S	Original PDA Value (in millions)	Revised PDA Value (in millions)	DoD OIG Calculated Value Using Standard Price (in millions)	DoD OIG Net Valuation Difference (in millions)
.50 Caliber Ball Ammunition	\$5.5	\$5.5	\$3.7	\$1.8
AIM-7 Sea Sparrow Missile	9.5	9.5	8.4	1.1
7.62x51 Ammunition	5.9	5.9	4.9	1.0
5.56mm Ball Ammunition	3.8	3.8	3.2	0.6
Zuni 5-inch Folding Fin Aircraft Rocket	5.7	5.7	5.2	0.5
.50 Caliber Ammunition	5.5	5.5	5.5	0
40mm Ammunition	12.8	12.8	12.8	0
Hydra-70 Rocket	14.3	14.3	14.9	(0.6)
Total	\$63.0	\$63.0	\$58.6	\$4.4

Sources: The DSCA and DoD OIG.

For example, the Navy did not revalue .50 caliber ball ammunition and left the value at the estimated replacement cost of \$5.5 million. We determined that the Navy overvalued .50 caliber ball ammunition by \$1.8 million.

¹³ We used prices from the Navy’s Ordnance Information System.

The Air Force Accurately Calculated MAC

The Air Force correctly used MAC when revaluing OM&S in accordance with the DCFO policy memorandum. We sampled three types of OM&S and calculated the same value as the Air Force. Table 18 shows the Air Force’s original PDA value amounts for each type of OM&S in our sample, the Air Force’s revised PDA value, and our matching calculations.

Table 18. Results of Air Force OM&S Sample Items for PDA EXORDs 1-37

Sampled Air Force OM&S	Original PDA Value (in millions)	Revised PDA Value After Revaluation (in millions)	DoD OIG Calculated Value (in millions)	DoD OIG Net Valuation Difference (in millions)
AGM-88B Anti-Radiation Missile	\$650.0	\$587.5	\$587.5	\$0
AIM-120B AMRAAM	20.6	20.6	20.6	0
.50 Caliber Ammunition	6.0	7.1	7.1	0
Total	\$676.6	\$615.2	\$615.2	\$0

Sources: The DSCA and DoD OIG.



The PDA Process Lacked Revaluation Oversight

The MILDEPs did not fully monitor and reconcile the revaluation of PDA EXORDs 1-37 to ensure that all assets were accurately revalued in accordance with the DCFO policy memorandum. The DCFO policy memorandum required a revaluation of all OM&S and GE provided under PDA to the GoU. The MILDEPs certified that they completed the reconciliations and their methodology used was in accordance with the DCFO policy memorandum. However, we determined that the MILDEPs did not properly monitor the revaluation. As a result, we identified that the MILDEPs still valued OM&S at estimated replacement cost or revalued OM&S incorrectly. For example, the Army and Marine Corps did not revalue OM&S for several PDA EXORDs despite certifying compliance with the DCFO policy memorandum.

While discussing the valuation of PDA to the GoU, Army officials stated that high quantity, relatively low dollar items like small arms ammunition, medical supplies, and other consumable items were valued at standard price with no

In comparing the standard price to the price used by the Army, the Army significantly overvalued OM&S provided in responding to the EXORDs.

substantial change in valuation. However, based on our analysis, in comparing the standard price to the price used by the Army, the Army significantly overvalued

OM&S provided in responding to the EXORDs. We concluded from the sample we reviewed that the Army overvalued its OM&S by approximately \$1.12 billion. While the Marine Corps did revalue an extensive amount of OM&S selected in our sample, the Marine Corps did not initially revalue OM&S for certain EXORDs. We concluded from our sample that the Marine Corps overvalued its OM&S by approximately \$124.1 million.

Without adequate oversight and internal controls to ensure proper valuation of defense articles, the MILDEPs cannot ensure compliance with the DCFO policy memorandum. The USD(C)/CFO, in coordination with the MILDEPs, should require MILDEPs to perform a full reconciliation of OM&S provided to the GoU under PDA EXORDs 1-37 to ensure those assets are revalued according to the DoD's PDA policies. MILDEPs should also perform a review of PDA EXORDs 38-56 to ensure that the EXORDs complied with the DoD's PDA policies. The USD(C)/CFO should require MILDEPs to develop and implement procedures to ensure there are adequate controls over valuing defense articles provided under PDA.

DoD Material Weaknesses Limit MILDEPs' Ability to Accurately Use MAC

The MILDEPs were unable to properly use MAC for PDA valuation of OM&S due to significant material weaknesses related to financial reporting. Specifically, the MILDEPs could not account for OM&S in accordance with generally accepted accounting principles and could not substantiate the existence and completeness of the OM&S assets reported on the financial statements. The MILDEPs' material weaknesses associated with financial reporting of OM&S mean that the MILDEPs do not have the historical cost data necessary for valuing OM&S. Without the historical cost data, the MILDEPs cannot calculate MAC for OM&S.

The MILDEPs' inability to provide accurate and reliable accounting of OM&S makes the use of MAC unreliable for PDA valuation for financial reporting to stakeholders including Congress,

The MILDEPs' inability to provide accurate and reliable accounting of OM&S makes the use of MAC unreliable for PDA valuation.

U.S. taxpayers, and DoD decision makers. While remediation efforts are underway, the MILDEPs are still years away from eliminating many of the material weaknesses associated with valuing OM&S. Until the MILDEPs produce accurate and reliable accounting information associated with OM&S, the DoD will need to develop an alternative methodology to support PDA. While not in accordance with the DCFO policy memorandum or generally accepted accounting principles, calculating the value of OM&S provided under PDA using standard price provides a reasonable basis for valuing OM&S in lieu of MAC until the material weaknesses are resolved. The USD(C)/CFO should reevaluate the policy to develop a standardized pricing methodology for valuing OM&S provided under PDA until the material weaknesses for valuing OM&S are resolved.

The DoD’s Revaluation of OM&S Sent to the GoU Is Understated

As a result, the DoD reported a revaluation of \$6.2 billion, that should have been reported as at least \$1.25 billion higher based on our OM&S sample. Table 19 shows the MILDEPs’ revised PDA value, our recalculations, and the resulting net differences.

Table 19. MILDEPs’ Incorrect Valuation of Sampled OM&S

MILDEP	Revised PDA Value for Sampled OM&S (in millions)	DoD OIG Calculated OM&S Value (in millions)	DoD OIG Net Valuation Differences (in millions)
Army	\$3,312.8	\$2,189.2	\$1,123.4
Marine Corps	517.0	392.9	124.1
Navy	63.0	58.6	4.4
Air Force	615.2	615.2	0
Total	\$4,508.0	\$3,255.9	\$1,251.9

Sources: The DSCA and DoD OIG.

The MILDEPs did not comply with the requirements of the DCFO policy memorandum. With the exception of the Air Force, the MILDEPs we sampled did not use MAC for calculating OM&S revaluation. The Army, Navy, and Marine Corps used a combination of standard price or estimated replacement cost and did not revalue all OM&S provided to the GoU at MAC. The MILDEPs are currently unable to correctly value their OM&S in accordance with the DoD FMR and the DCFO policy memorandum. While standard price does not comply with DoD policy and generally accepted accounting principles, standard price does comply with the FAA’s definition of “value,” and until the material weaknesses associated with valuing OM&S at MAC can be fully remediated, standard price is the most reliable substitute for valuing OM&S under PDAs.

The DoD has limited assurance that the values it reported are correct, contrary to its certifications that the reported PDA value was accurate and calculated in accordance with DoD policy. The DoD's inability to properly value OM&S provided to the GoU under PDA limits its ability to manage the use of PDA and could negatively impact the public's perception of the accuracy of information regarding PDA supporting the GoU.

Recommendations, Management Comments, and Our Response

Recommendation B.1

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- a. In coordination with the following officials, require Military Departments to perform a full reconciliation of Operating Materials and Supplies provided to the Government of Ukraine under Presidential Drawdown Authority Execute Orders 1-37 to ensure those assets are revalued according to the DoD's Presidential Drawdown Authority policies. The following Military Department offices should also perform a review of Presidential Drawdown Authority Execute Orders 38-56 to ensure that the Execute Orders complied with the DoD's Presidential Drawdown Authority policies:**
 - 1. Assistant Secretary of the Army (Financial Management and Comptroller)**
 - 2. Assistant Secretary of the Navy (Financial Management and Comptroller)**
 - 3. Assistant Secretary of the Air Force (Financial Management and Comptroller)**
 - 4. Assistant Deputy Commandant for Programs and Resources of the Marine Corps**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The USD(C)/CFO agreed with the recommendation, stating that Military Departments concurred with the recommendations and are already performing reconciliations of items provided to the GoU under the PDA to ensure they are valued in accordance with the valuation policy.

Our Response

Comments from the USD(C)/CFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once the DoD provides the results of the MILDEPs' reconciliations to demonstrate a full OM&S revaluation was performed for PDA EXORDs 1-37 and that a review of subsequent EXORDs 38-56 was performed.

- b. Require the Military Departments to develop and implement procedures to ensure there are adequate controls over valuing defense articles provided under Presidential Drawdown Authority.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The USD(C)/CFO agreed with the recommendation, stating that while the DoD has previously used PDA to assist foreign partners, the support provided to the GoU through drawdowns is unprecedented in volume, frequency, and monetary value. The USD(C)/CFO stated further that the DoD has made significant improvements to the PDA process, including multiple reviews of PDA packages, the implementation of a certification process by which DoD Components verify the proper valuation of PDA articles, and the development of a PDA replenishment tracker in ADVANA. Additionally, the USD(C)/CFO stated that the DoD will continue to establish more specific and standardized controls over valuing items provided under the PDA to enhance accuracy and accountability.

Our Response

Comments from the USD(C)/CFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once the DoD provides the updated procedures and controls put in place over valuing items under the PDA.

- c. Reevaluate the policy to develop a standardized pricing methodology for valuing Operating Materials and Supplies provided under Presidential Drawdown Authority until the material weaknesses for valuing operating materials and supplies are resolved.**

Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD Comments

The USD(C)/CFO agreed with the recommendation, stating that the revaluation of PDA in support of the GoU did not directly affect any of the DoD's annual financial statements. The USD(C)/CFO stated that the DoD's ability to validate the value of OM&S is impeded by the financial reporting material weaknesses.

The DoD Components are currently at different stages in resolving the material weaknesses over OM&S and, until they are successful in doing so, an alternative method to value OM&S provided under the PDA is needed. To address this, the DoD has formed a working group comprising relevant PDA stakeholders from across the DoD. This group is tasked with determining an alternative valuation methodology for OM&S that does not rely on the resolution of material weaknesses. The working group has identified the most efficient approach for valuing these materials using existing data and systems. It is currently in the process of updating the PDA valuation policy accordingly.

Our Response

Comments from the USD(C)/CFO addressed the specifics of the recommendation; therefore, the recommendation is resolved but will remain open. We will close the recommendation once the DoD provides the updated PDA valuation policy covering an alternate method of calculating OM&S.

Appendix A

Scope and Methodology

We conducted this performance audit from September 2023 through April 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.

To obtain an understanding of the office's role with policy associated with PDA, we met and coordinated with the following DoD Components and leadership.

- Department of the Army, Assistant Secretary of the Army (Financial Management and Comptroller)
- Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) Deputy Chief of Operations, Plans, and Strategy
- Department of the Navy, Financial Management Operations and United States Marine Corps
- Department of the Air Force
- DSCA
- OUSD(C)/CFO

We obtained the following guidance, policies, and memorandums relevant to our audit objectives.

- Foreign Assistance Act of 1961, as amended
- "DSCA Handbook for Foreign Assistance Act (FAA) Drawdown of Defense Articles and Services," June 2004
- "Clarification of Presidential Drawdown Authority Valuation of Defense Articles," March 31, 2023
- "General Business Rules for use of Drawdown Authority and Replacement of Items and Reimbursement for Services Provided under Drawdown Authority," June 1, 2023
- "DSCA Security Assistance Management Manual (SAMM) DoDM 5105.38-M," October 3, 2003.
- DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 4, "Inventory and Related Property"
- DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 4, chapter 25, "General Equipment"

- DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 11b, chapter 15, “Supply Management Activities”
- DoD Regulation 7000.14-R, “DoD Financial Management Regulation,” volume 15, chapter 7, “Pricing”

Audit Universe and Sample Selection

To ensure the proper valuation of GE and OM&S provided to the GoU, we selected a nonstatistical sample from the defense articles supplied by the Army, Marine Corps, Navy, and Air Force. We did not select any samples provided by the U.S. Special Operations Command or U.S. Transportation Command. To develop our sample, we reviewed the DSCA population of assets provided to the GoU under PDA EXORDs 1-37 and selected high dollar-valued assets of defense articles for GE and OM&S testing. Table 20 represents the assets in the audit universe sorted by MILDEP with the original EXORD values.

Table 20. Audit Universe

MILDEP	Number of GE Items	Original GE EXORD Value	Number of OM&S Items	Original OM&S EXORD Value
Army	11,165	\$5,280,600,235	158,600,906	\$6,971,730,327
Marine Corps	13,014	394,256,859	51,064,648	1,969,260,953
Navy	1,442	82,527,878	22,266,663	125,398,755
Air Force	395	88,890,804	5,853,515	728,372,155
Total	26,016	\$5,846,275,776	237,785,732	\$9,794,762,190

Sources: The DSCA and DoD OIG.

Table 21 represents our selected samples from the MILDEPs.

Table 21. Audit Nonstatistical Sample Selections – OM&S and GE

MILDEP	Number of GE Items	Original Equipment EXORD Value	Number of OM&S Items	Original OM&S EXORD Value
Army	1,065	\$4,115,943,259	3,172,289	\$3,934,705,333
Marine Corps	1,076	262,966,768	1,154,749	1,349,639,178
Navy	68	41,515,408	18,619,248	63,013,064
Air Force	107	58,461,086	1,590	676,607,308
Total	2,316	\$4,478,886,521	22,947,876	\$6,023,964,883

Sources: The DSCA and DoD OIG.

In determining whether the GE was revalued in accordance with the DCFO policy memorandum, we requested a serialized listing of GE provided to the GoU for our sample. We obtained the October 2021 accounting data from the Army, Marine Corps, Navy, and Air Force accountable property systems of record, and compared those NBVs to the values used from each MILDEP's revaluation.

We reviewed OM&S standard price accounting data for FY 2023 for each asset type and calculated the total value by multiplying the standard price by the quantity listed as delivered to the GoU in our sample population.

Internal Control Assessment and Compliance

We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed internal controls related to the extent and impact of the March 31, 2023 DCFO policy memorandum for valuing assets provided by MILDEPs under PDA to the GoU. We determined whether the MILDEPs followed the guidance when updating the value of items provided to the GoU. In our assessment of internal controls, we focused on the control environment and control activities relating to PDA valuation. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

Use of Computer-Processed Data

We used computer-processed data from the DSCA 1000 system, the formal channel for reporting drawdown expenditures and tracking EXORDS. We also used the following MILDEP systems to perform this audit.

- Department of the Army: Army Enterprise System Integration Program
- Marine Corps: Defense Agencies Initiative
- Department of the Navy: Expeditionary Management Information System and Ordnance Information System
- Department of the Air Force: Reliability and Maintainability Information System and Theater Integrated Combat Munitions System

We used the DSCA 1000 system to obtain population and sample data.

The MILDEPs' systems were used to obtain the NBV for GE and MAC or standard price for OM&S in our sample selections to compare to the data in the DSCA 1000 system. We used the Army Enterprise System Integration Program to obtain GE values for the Army and OM&S values for the Army and Marine Corps. We used the Defense Agencies Initiative system to obtain Marine Corps GE. The Expeditionary Management Information System was used to obtain the

GE values and the Ordnance Information System was used to obtain OM&S values for the Navy. Finally, we used the Reliability and Maintainability Information System for GE values and the Theater Integrated Combat Munitions System to obtain MAC values for the Air Force.

Appendix B

Prior Coverage

During the last 5 years, the Government Accountability Office (GAO) and the DoD Office of Inspector General (DoD OIG) issued 13 reports discussing defense articles provided to the GoU.

Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/reports.html/>.

Unrestricted Army Audit Agency reports can be accessed from .mil and gao.gov domains at <https://www.army.mil/aaa>.

Naval Audit Service reports are not available over the Internet.

Unrestricted Air Force Audit Agency reports can be accessed at <https://www.affaa.af.mil/> by clicking on “Freedom of Information Act Reading Room” and then selecting “Audit Reports.”

GAO

Report No. GAO-22-106079, “U.S. Support for the War in Ukraine,” September 2022

This National Security Snapshot summarized the GAO’s body of work assessing areas relevant to the war in Ukraine. This included the U.S. military posture in Europe, development assistance, the information environment, military readiness, and intelligence issues.

DoD OIG

Report No. DODIG-2024-057 “Evaluation of the DoD’s Sustainment Plan for Bradley, Stryker, and Abrams Armored Weapons Systems Transferred to the Ukrainian Armed Forces,” February 15, 2024

The DoD OIG determined that, as of January 2024, the DoD had not developed or implemented a plan for sustaining the Bradleys, Strykers, and Abrams provided to the Ukrainian Armed Forces. The DoD OIG recommended that the Under Secretary of Defense for Policy (USD[P]), in coordination with the Under Secretary of Defense for Acquisition and Sustainment (USD[A&S]), provide recommendations to the Secretary of Defense, in accordance with DoD Directive 5100.01, to identify the policy goals, priorities, and objectives of U.S. sustainment support for weapon systems provided to the Ukrainian Armed Forces (UAF).

Report No. DODIG-2024-056, “Evaluation of Sustainment Strategies for the PATRIOT Air Defense Systems Transferred to the Ukrainian Armed Forces,” February 15, 2024

The DoD OIG determined that the DoD did not develop a sustainment strategy for the PATRIOT air defense systems transferred to the UAF. The DoD OIG recommended that the Under Secretary of Defense for Policy, in coordination with the Under Secretary of Defense for Acquisition and Sustainment, develop and implement a sustainment strategy for PATRIOT air defense systems transferred to the UAF.

“Special Inspector General Report to the United States Congress: Operation Atlantic Resolve,” February 15, 2024

This first quarterly report submitted by the Special Inspector General for Operation Atlantic Resolve summarized U.S. Government support to Ukraine and the broader response to Russia’s full-scale invasion of that country, including support for the UAF, support for NATO partners, U.S. military activity, diplomatic efforts, and humanitarian assistance.

Report No. DODIG-2024-053, “Evaluation of the U.S. European Command’s Planning and Execution of Ground Transportation of Equipment to Support Ukraine from Port to Transfer Locations,” February 8, 2024

The objective of this evaluation was to determine whether the U.S. European Command (USEUCOM) and U.S Army Europe-Africa (USAREUR-AF) implemented security and accountability controls during the planning and execution of transportation of equipment to support Ukraine, from European seaport to ground transportation. The DoD OIG recommended that the USAREUR-AF Commander develop and implement a plan to ensure that Presidential Drawdown equipment traveling through the USEUCOM area of responsibility is equipped with In-Transit Visibility devices or other means and methods to ensure near real-time visibility of PD equipment in accordance with USEUCOM guidance.

Report No. DODIG-2024-043, “Evaluation of the DoD’s Enhanced End-Use Monitoring of Defense Articles Provided to Ukraine,” January 10, 2024

The objective of this evaluation was to determine the extent to which the DoD conducted enhanced end-use monitoring (EEUM) of designated defense articles provided to Ukraine in accordance with DoD policy. The DoD OIG determined that \$1.005 billion of the total \$1.699 billion of enhanced end-use monitoring-designated defense articles remained delinquent. In addition, the

DoD did not maintain an accurate inventory of Ukrainian enhanced end-use monitoring-designated defense articles in the Security Cooperation Information Portal-End Use Monitoring database.

Report No. DODIG-2023-090, "Management Advisory: Sufficiency of Staffing at Logistics Hubs in Poland for Conducting Inventories of Items Requiring Enhanced End-Use Monitoring," June 28, 2023

The DoD OIG determined that Office of Defense Cooperation-Ukraine personnel were not always physically present to conduct an initial 100 percent serial number inventory of all EEUM-designated articles at the multiple logistics hubs in Poland before transfer or delivery to Ukraine in accordance with the Security Assistance Management Manual. The DoD OIG recommended that the Director, Defense Security Cooperation Agency update Security Assistance Management Manual Section C8.5.5, "Conducting EEUM in a Hostile Environment," to allow U.S. Government personnel to perform initial serial number inventories before defense articles enter hostile areas on behalf of the Security Cooperation Organizations.

Report No. DODIG-2023-087, "Management Advisory: Basic Issue Items and Components of End Items Shortages in the Army's Prepositioned Stock-5 Program," June 15, 2023

The purpose of this management advisory was to inform Headquarters, Department of the Army and Army Materiel Command officials responsible for the Army Prepositioned Stock program and Army-wide equipment transfer decisions of shortages in Basic Issue Items and Components of End Items from Army Prepositioned Stock-5 equipment. Army officials informed the DoD OIG of these shortages during the audit of the Army's management of Army Prepositioned Stock-5 equipment (D2022-D000RJ-0163.000).

Report No. DODIG-2023-086, "Audit of DoD Training of Ukrainian Armed Forces," June 13, 2023

The objective of this audit was to determine whether the 7th Army Training Command (7th ATC) trained the UAF to operate and maintain U.S.-provided advanced platforms, such as crew-served weapons or radar systems, that were approved for transfer to Ukraine in 2022. The DoD OIG did not identify any instance when the 7th ATC did not provide UAF-requested operational or maintenance training.

Report No. DODIG-2023-084, “Evaluation of Accountability Controls for Defense Items Transferred Via Air to Ukraine within the U.S. European Command Area of Responsibility,” June 8, 2023

The DoD OIG determined that DoD personnel effectively and swiftly received, inspected, staged, and transferred defense items to GoU representatives in Jasionka, Poland. However, DoD personnel did not have the required accountability for the thousands of defense items they received and transferred at Jasionka. As a result, the DoD did not have sufficient accountability controls to provide reasonable assurance that its inventory of defense items transferred to the GoU via the air hub in Jasionka was accurate or complete.

Report No. DODIG-2023-076, “Management Advisory: Maintenance Concerns for the Army’s Prepositioned Stock-5 Equipment Designated for Ukraine,” May 23, 2023

The purpose of this management advisory was to inform Department of the Army, Army Materiel Command, Army Sustainment Command, and USEUCOM officials responsible for the designation and transfer of military equipment to the UAF of concerns for the readiness of Army Prepositioned Stock-5 equipment. The DoD OIG recommended that the Commander of the 401st Army Field Support Battalion-Kuwait develop and implement increased inspection procedures to not only validate that the Army Prepositioned Stock-5 contractor had properly corrected known maintenance deficiencies, but also conduct a thorough visual inspection of equipment and correct any deficiencies.

Report No. DODIG-2023-074, “Management Advisory: DoD Review and Update of Defense Articles Requiring Enhanced End-Use Monitoring,” May 19, 2023

The DoD OIG provided this management advisory to inform DoD leadership of the need to review and update the list of U.S. defense articles included in the EEUM program. The DoD OIG determined that the Defense Security Cooperation Agency did not include a regular and recurring requirement in the Security Assistance Management Manual to review, update, and remove defense articles designated for Enhanced End-Use Monitoring. The DoD OIG recommended that the Director, Defense Security Cooperation Agency, in coordination with the Tri-Service Committee member representatives, review, analyze, and update the list of defense articles currently designated as requiring enhanced end-use monitoring.

Report No. DODIG-2023-053, "Evaluation of Army Pre-Positioned Equipment Issued in Response to Ukraine and the NATO Defense Forces," February 27, 2023

The objective of this evaluation was to determine the extent to which the U.S. Army Sustainment Command and 405th Army Field Support Brigade maintained and accounted for pre-positioned stocks of military equipment in response to Russia's full-scale invasion of Ukraine and in support of NATO Defense Forces. The DoD OIG determined that some of the equipment from APS-2 was non-Fully Mission Capable and that the 405th Army Field Support Brigade can improve its equipment maintenance and coordination processes.

Management Comments

Under Secretary of Defense (Comptroller)



COMPTROLLER

UNDER SECRETARY OF DEFENSE

1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

MAY 22 2024

MEMORANDUM FOR PROGRAM DIRECTOR FOR AUDIT, FINANCIAL MANAGEMENT AND REPORTING, DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL

SUBJECT: Response to the Department of Defense Inspector General Draft Report, "Audit of the DoD's Re-valuation of the Support Provided to Ukraine Through Presidential Drawdown Authority" (Project number D2023-D000FI-0156.000)

The Office of the Under Secretary of Defense (Comptroller) appreciates the Department of Defense (DoD) Office of Inspector General (OIG) work on the subject audit and the opportunity to review and comment on the draft report dated April 18, 2024. Attached is our response to the OIG recommendations.

We discovered the overvaluation of the articles provided to Ukraine pursuant to Presidential Drawdown Authority (PDA) during the DoD internal review of our PDA execution, and we promptly took corrective actions to clarify our valuation policy and revalue the articles accordingly. We emphasize and encourage the DoD OIG to reflect up front in its final report, that none of DoD's actions, either before or after its revaluation efforts, violated legal provisions authorizing use of PDA. Specifically, DoD has fully complied with the relevant statutory limits for the value of articles and services authorized to be transferred to Ukraine, and refined its course last year only with respect to standardizing how the Military Departments valued such articles and services. We also stress that the revaluation did not constrain our support to Ukraine, and no additional equipment could or would have been sent had the overvaluation not occurred. Lastly, our valuation of PDA articles did not directly affect any of our DoD annual financial statements or our regular financial reporting process.

We have already taken corrective actions and made improvements to our PDA business practices, ensuring PDA valuations are in line with policy, and we look forward to providing you this updated information.

Please direct any questions or comments regarding this response to [REDACTED] Director, Financial Management Policy and Reporting, at [REDACTED] or [REDACTED]

Michael McCord

Attachment:
As stated

USC000366-24

Under Secretary of Defense (Comptroller) (cont'd)

**DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL
DRAFT REPORT DATED APRIL 18, 2024
PROJECT NO. D2023-D000FI-0156.000
“AUDIT OF THE DOD’S RE-VALUATION OF THE SUPPORT PROVIDED TO
UKRAINE THROUGH PRESIDENTIAL DRAWDOWN AUTHORITY”**

**DEPARTMENT OF DEFENSE COMMENTS TO
THE DEPARTMENT OF DEFENSE OFFICE OF INSPECTOR GENERAL
RECOMMENDATIONS**

RECOMMENDATION A.1: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- a. In coordination with the Defense Security Cooperation Agency, reevaluate the policy for valuing General Equipment, including items with a net book value of zero, provided through Presidential Drawdown Authority and update the Defense Security Cooperation Agency’s Security Assistance Management Manual accordingly.
- b. In coordination with the following officials, require Military Departments to perform a full reconciliation of General Equipment provided to the Government of Ukraine under Presidential Drawdown Authority Execute Orders 1-37 to ensure those assets are revalued according to the DoD’s Presidential Drawdown Authority policies. The following Military Department offices should also perform a review of Presidential Drawdown Authority Execute Orders 38-55 to ensure that the Execute Orders complied with DoD’s Presidential Drawdown Authority policies:
 - 1) Assistant Secretary of the Army (Financial Management and Comptroller),
 - 2) Assistant Secretary of the Navy (Financial Management and Comptroller),
 - 3) Assistant Secretary of the Air Force (Financial Management and Comptroller),
 - 4) Assistant Deputy Commandant for Programs and Resources of the Marine Corps.
- c. In coordination with the Defense Security Cooperation Agency, determine whether General Equipment below the capitalization threshold provided through Presidential Drawdown Authority should be valued at other than net book value and if so, update the Defense Security Cooperation Agency’s Security Assistance Management Manual accordingly and alert the MILDEPs to this change.

DOD RESPONSE:

A.1.a. The Under Secretary of Defense (Comptroller)/Chief Financial Officer concurs with this recommendation. General Equipment with a zero net book value is considered fully depreciated for regular financial statement reporting purposes. However, valuing items at zero dollars for the

Under Secretary of Defense (Comptroller) (cont'd)

purposes of measuring the presidential drawdowns could theoretically result in drawing down large quantities of certain articles without impact to the statutory cap, which we do not believe is the intent of the Foreign Assistance Act of 1961. Therefore, for the purposes of measuring value of items drawn down against the authorized dollar value ceiling, it is appropriate and reasonable to assign a value to the fully depreciated items. DoD has formed a working group with the relevant PDA stakeholders across the Department tasked with defining the appropriate valuation methodology for the fully depreciated items and updating the Presidential Drawdown Authority (PDA) valuation policy accordingly. The working group is currently determining the most efficient approach for valuing fully depreciated general equipment using the existing data and systems, and consistent with law.

A.1.b. The Under Secretary of Defense (Comptroller)/Chief Financial Officer concurs with this recommendation. Military Departments are already performing reconciliations of items provided to Ukraine under the PDA to ensure they are valued in accordance with the valuation policy.

A.1.b.1. Assistant Secretary of the Army (Financial Management and Comptroller) concurs with this recommendation.

A.1.b.2. Assistant Secretary of the Navy (Financial Management and Comptroller) concurs with this recommendation.

A.1.b.3. Assistant Secretary of the Air Force (Financial Management and Comptroller) concurs with this recommendation.

A.1.b.4. Assistant Deputy Commandant for Programs and Resources of the Marine Corps concurs with this recommendation.

A.1.c. The Under Secretary of Defense (Comptroller)/Chief Financial Officer concurs with this recommendation. The General Equipment capitalization threshold varies for different DoD components, ranging from \$250,000 to \$1,000,000. For regular financial statement reporting purposes, and in accordance with Generally Accepted Accounting Principles, General Equipment below the capitalization threshold is expensed in the period acquired. However, for the purposes of measuring the Presidential Drawdowns (PDs) against the authorized dollar value ceiling, it is appropriate and reasonable to include these items regardless of their non-capitalization on the financial statements. DoD has formed a working group with the relevant PDA stakeholders across the Department tasked with defining the appropriate valuation methodology for General Equipment below capitalization threshold and updating the PDA valuation policy accordingly. The working group has determined the most efficient approach for valuing General Equipment using the existing data and systems and is currently in the process of updating the PDA valuation policy accordingly.

RECOMMENDATION A.2: We recommend that the Under Secretary of Defense for Policy and the Director, Defense Security Cooperation Agency:

- a. Perform a cost-benefit analysis of upgrading the manually-intensive Defense Security Cooperation Agency 1000 system environment to provide automated information, which

Under Secretary of Defense (Comptroller) (cont'd)

includes all required data fields, to support DoD Components' tracking and reporting of Presidential Drawdown Authority.

- b. Update the Security Assistance Management Manual to include information on developing initial estimates for valuing defense articles on the Presidential Determination and Defense Security Cooperation Agency Presidential Drawdown Authority Execute Orders, and guidance on updating initial estimated costs to actual costs of the Presidential Drawdown Authority Execute Orders.
- c. In coordination with the Office of the Under Secretary of Defense for Acquisition and Sustainment, develop a centralized repository of serialized General Equipment provided under Presidential Drawdown Authority that tracks the assets by serial number and by specific Presidential Drawdown Authority under which the serialized General Equipment was provided.

DOD RESPONSE:

A.2.a. The Under Secretary of Defense for Policy and the Director, Defense Security Cooperation Agency (DSCA), concur with this recommendation. To that end, DSCA fully acknowledges the current limitations and scope of the current DSCA 1000 System. In response to the challenges faced with the Government of Ukraine drawdowns, DSCA has proactively initiated updates and enhancements to the DSCA 1000 System to improve internal controls and data integrity. As of today, the DSCA 1000 System has the ability to capture Execute Order (EXORD) estimated valuations as well as final delivered valuations. By May 31, 2024, the DSCA 1000 system will automatically ingest issued EXORD data, thus eliminating the significant reconciliation efforts in place today and improving the accuracy and reliability of the data. By July 31, 2024, the DSCA 1000 system will enable the Services to include attachments to the 1000 system records to substantiate reported deliveries. In March 2024, DSCA also initiated a formal study of the PD process, to identify potential process and technological optimizations. The study will not just focus on DSCA's role in the process, but will also review the roles, responsibilities, and processes of other DoD stakeholders involved in PDA efforts. DSCA plans to use the results of this study to inform potential updates to DSCA or DoD PDA policy/processes and to form the baseline requirements of a new, modernized 1000 System.

A.2.b. The Under Secretary of Defense for Policy and the Director, Defense Security Cooperation Agency, concur with this recommendation. The DSCA will continue to work closely with OUSD-Comptroller and Service counterparts to oversee the revaluation of PD assets and to further refine and clarify PD policy and procedural guidance.

A.2.c. The Under Secretary of Defense for Policy and the Director, Defense Security Cooperation Agency, concur with this recommendation, with the caveat that the Office of the Under Secretary of Defense (OUSD) for Acquisition and Sustainment (OUSD(A&S)) should be the office of primary responsibility for this action, as the DoD's ability to further link serialized general equipment to deliveries under PDA are contingent on the DoD's ability to access this type of data. DSCA does not own this data, and, therefore, would be reliant on OUSD(A&S) to identify the appropriate source systems to link to. Once accurate and reliable data from

Under Secretary of Defense (Comptroller) (cont'd)

authoritative source systems becomes available, DSCA can work with the appropriate Departmental stakeholders to incorporate this data either into a modernized 1000 System, or to link PDA data with serialized general equipment data through dashboards or data visualizations in Advana.

RECOMMENDATION B.1: We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD:

- a. In coordination with the following officials, require Military Departments to perform a full reconciliation of Operating Materials and Supplies provided to the Government of Ukraine under Presidential Drawdown Authority Execute Orders 1-37 to ensure those assets are revalued according to the DoD's Presidential Drawdown Authority policies. The following Military Department offices should also perform a review of Presidential Drawdown Authority Execute Orders 38-55 to ensure that the Execute Orders complied with the DoD's Presidential Drawdown Authority policies:
 - 1) Assistant Secretary of the Army (Financial Management and Comptroller),
 - 2) Assistant Secretary of the Navy (Financial Management and Comptroller),
 - 3) Assistant Secretary of the Air Force (Financial Management and Comptroller),
 - 4) Assistant Deputy Commandant for Programs and Resources of the Marine Corps.
- b. Require the Military Departments to develop and implement procedures to ensure there are adequate controls over valuing defense articles provided under Presidential Drawdown Authority.
- c. Reevaluate the policy to develop a standardized pricing methodology for valuing Operating Materials and Supplies provided under Presidential Drawdown Authority until the material weaknesses for valuing operating materials and supplies are resolved.

DOD RESPONSE:

B.1.a. The Under Secretary of Defense (Comptroller)/Chief Financial Officer concurs with this recommendation. Military Departments are already performing reconciliations of items provided to Ukraine under the PDA to ensure they are valued in accordance with the valuation policy.

B.1.a.1. Assistant Secretary of the Army (Financial Management and Comptroller) concurs with this recommendation.

B.1.a.2. Assistant Secretary of the Navy (Financial Management and Comptroller) concurs with this recommendation.

B.1.a.3. Assistant Secretary of the Air Force (Financial Management and Comptroller) concurs with this recommendation.

B.1.a.4. Assistant Deputy Commandant for Programs and Resources of the Marine Corps concurs with this recommendation.

Under Secretary of Defense (Comptroller) (cont'd)

B.1.b. The Under Secretary of Defense (Comptroller)/Chief Financial Officer concurs with this recommendation. While the DoD has previously used PDAs to assist foreign partners, the support provided to Ukraine through drawdowns is unprecedented in volume, frequency, and monetary value. Consequently, the Department has made significant improvements to the PDA process. These improvements include multiple reviews of PDA packages, which have helped detect misvaluations; the implementation of a certification process where DoD components verify the proper valuation of PDA articles; and the development of a PDA replenishment tracker in Advana.

However, we recognize that there is still room for improvement in our overall PDA process and management. We continue to establish more specific and standardized controls over valuing items provided under PDA to enhance accuracy and accountability.

B.1.c. The Under Secretary of Defense (Comptroller)/Chief Financial Officer concurs with this recommendation. The revaluation of PDA in support of Ukraine did not directly affect any of DoD's annual financial statements. However, as demonstrated by our financial audit material weakness, our ability to support the value of the Operating Materials and Supplies is impeded. The DoD components are currently at different stages in resolving the material weaknesses over Operating Material and Supplies, and until they are successful in doing so, an alternative method to value Operating Material and Supplies provided under PDA is needed.

To address this, the DoD has formed a working group comprising relevant PDA stakeholders from across the Department. This group is tasked with determining an alternative valuation methodology for Operating Materials and Supplies that does not rely on the resolution of material weaknesses. The working group has identified the most efficient approach for valuing these materials using existing data and systems. It is currently in the process of updating the PDA valuation policy accordingly.

Acronyms and Abbreviations

DCFO	Deputy Chief Financial Officer, Department of Defense
DCSA	Defense Security Cooperation Agency
DCSA 1000	DCSA Management Information System
EXORD	Execute Order
FAA	Foreign Assistance Act of 1961
FMR	Financial Management Regulation
GE	General Equipment
GoU	Government of Ukraine
HMMWV	High Mobility Multipurpose Wheeled Vehicle
MAC	Moving Average Cost
MRAP	Mine-Resistance Ambush Protected Vehicle
NBV	Net Book Value
NSN	National Stock Number
OM&S	Operating Materials and Supplies
PD	Presidential Determination
PDA	Presidential Drawdown Authority
SAMM	Security Assistance Management Manual
TOW	Tube Launched, Optically Tracked, Wire(less) Guided Missile
USD(C)/CFO	Under Secretary of Defense (Comptroller) / Chief Financial Officer, DoD

Glossary

Acquisition Cost. The amount, net of both trade and cash discounts, paid for property plus transportation costs and other ancillary costs to bring the item to its current condition and location.

Capitalization Threshold. A capitalization threshold is the amount that determines the financial reporting of an asset or expensing its cost.

Execute Order (EXORD). DSCA issues an EXORD following the drawdown of defense articles ordered under PDA. The DSCA EXORD directs the Military Services and Defense agencies to fulfill the order, while also providing planning information and instructions. The purpose of the EXORD is to facilitate the immediate movement of defense items from military units and existing DoD resources to assist and support the GoU's ongoing war efforts.

General Equipment (GE). Tangible assets that have a useful life of at least 2 years, are not intended for sale in the ordinary course of operations, and are acquired or constructed with the intention of being used or being available for use by the entity.

Historical Cost. Historical cost includes all appropriate purchase, transportation, and production costs incurred to bring items to their current condition and location. Historical cost excludes abnormal costs, which should be expensed in the period incurred rather than capitalized as inventory.

Moving Average Cost (MAC). An inventory costing method used with a perpetual inventory system. A weighted average cost per unit is recomputed after every purchase. Goods sold are costed at the most recent MAC.

Net Book Value (NBV). NBV is the recorded cost of a general equipment asset, less its accumulated depreciation.

Operating Materials & Supplies (OM&S). OM&S consist of tangible personal property to be consumed in normal operations.

Replacement Cost. The price that an entity would pay to replace an existing asset at current market prices with a similar asset.

Salvage Value. The actual or estimated value realized on the sale of a fixed asset at the end of its useful life.

Standard Price. Price customers are charged which reflects the DoD's stabilized price policy requiring item pricing that remains constant throughout a fiscal year. Standard price is calculated based on factors including replenishment cost plus surcharges to recover costs for transportation, inventory loss, obsolescence and maintenance, depreciation, and supply operations.



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**For more information about DoD OIG
reports or activities, please contact us:**

Congressional Liaison
703.604.8324

Media Contact
public.affairs@dodig.mil; 703.604.8324



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4800 Mark Center Drive
Alexandria, Virginia 22350-1500
www.dodig.mil
DoD Hotline 1.800.424.9098

