

FACT PAPER: Reconciliation of Presidential Drawdown Authority for Ukraine July 11, 2023

- Thanks to strong bipartisan support from Congress, the United States has provided Ukraine with an historic level of security assistance that has been essential to enabling Ukrainian success on the battlefield in the face of Russia's unprovoked war of aggression.
- Inconsistencies in equipment valuation for Ukraine were discovered during the Department of Defense's (DoD) internal oversight of our execution of Presidential Drawdown Authority (PDA) for Ukraine. The total over-valuation of PDA was \$3.6 billion in FY23 and \$2.6 billion in FY22, for a total of \$6.2 billion.
- The Department made the congressional leadership and our oversight committees aware of the problem, and the scope of the mis-valuations for FY23, in May. Once we finished re-examining all our FY22 assistance packages, we provided that additional information, along with details of every transaction for both years, in June.
- In some cases, Services used replacement cost rather than net book value, thereby overestimating the value of the equipment drawn down from U.S. stocks and provided to Ukraine. In most cases, the correct book valuation was used.
- This is not a case of waste, fraud, or abuse – rather a self-identified authority valuation error. Congress was not misled about the content of any PDA package, although the valuation of that content was mis-stated in some cases. There was no misuse of taxpayer funds due to these errors.
- Once the Department discovered these miscalculations in valuation, the Undersecretary of Defense, Comptroller (USDC) re-issued guidance clarifying how to value equipment in line with Financial Management Regulations and DoD policy, utilizing net book value.
- USDC also tasked the Services to review all previous Ukraine PDA packages based on this guidance, and that process is now complete.
- This over-valuation did not constrain our support to Ukraine or impact our ability to flow capabilities to the battlefield. No additional equipment could or would have been sent had the miscalculation not occurred. Equipment transfers are scoped primarily by matching Ukraine's needs with what the U.S. and other partners have available to be delivered on time to produce the effects needed. Available authority is not the only factor considered.
- The Administration did not require all of the additional drawdown authority that was authorized for fiscal year (FY) 2022, and we assess we have sufficient drawdown and Ukraine Security Assistance Initiative (USAI) authority for the balance of FY23 as previously agreed with the Congress. We shape our PDA packages based on matching requirements with what is available from our inventory that the Ukrainians

can learn to use in time to make a difference. We have not been holding back resources because of authority cap considerations.

- The substance of a drawdown package, as described in the congressional notifications that accompany each package, are the items of equipment provided to Ukraine for its self-defense, such as artillery rounds, ammunition, vehicles, and rockets. The quantities of these items represent the content of a PDA assistance package. The valuation of the authority used is a not-to-exceed ceiling by fiscal year. No such ceilings were exceeded with or without the revaluations, and there were no errors in the description of the actual material assistance provided to Ukraine.
- No action was taken, before or after the revaluation, that was inconsistent with law, nor was any aid withheld from Ukraine.
- This revaluation is an authority issue, not a funding one. Following our policy by applying “net book value” restores authority and results in lower, more accurate valuations. The restored authority is available for future support to Ukraine. The amount of funding provided by Congress to replenish DoD supplies provided to Ukraine via PDA is a separate element of the Ukraine supplementals the Administration has requested and Congress has enacted, and those appropriations were not mis-valued.
- Taking these actions to appropriately reflect valuation will make additional PDA available for use to provide additional support to Ukraine, however, we did not plan to and will not request additional PDA, or replenishment funding, in FY 23.
- The State Department notified the government of Ukraine at the same time we notified our defense committees.
- Continued bipartisan support for Ukraine remains essential to its ability to defend its freedom and deter Russian aggression now.

Additional FAQ:

How does DOD justify the use of net book value vice replacement costs when the equipment given to Ukraine must be replaced with new equipment?

- Defense articles provided to Ukraine are valued using historical cost less accumulated depreciation expense which represents the net book value. Using this method represents the true cost of the items pulled from U.S. military stock and provided to Ukraine. Providing defense articles from U.S. military stock is the most expedient method for providing much needed military aid to Ukraine. Replacing the defense articles requires purchase of new equipment which will have a net book value equal to the replacement cost since the depreciation expense will be practically zero.

How is DOD calculating the net book value of equipment given to Ukraine?

- Net book value is the historical cost minus accumulated depreciation. Accumulated depreciation is based on the use-full life of the defense article. The accumulated depreciation is an adjustment for condition and market value of the defense article.

Prior to this updated accounting guidance, which military services were using replacement cost and which were using net book value or other methods?

- All of the military services used net book value, however, in some cases the Army, Navy, Marine Corps, and Air Force, used replacement cost. Net book value was used for about 87% of the items and replacement cost was used for about 13% of the items.

What is the total replacement cost to backfill U.S. equipment and munitions stocks that have been drawn down for Ukraine?

- The total replacement cost to backfill U.S. equipment and munitions stocks that have been drawn down for Ukraine through PDA 42 is approximately \$30.6 billion.

If DOD intends to use net book value going forward, but still needs to replace equipment for U.S. stocks based on replacement value, how does DOD propose to fund the full replacement cost?

- DOD will evaluate and request appropriate levels of funding required to replace equipment provided to Ukraine from U.S. stocks.

Given the apparent difficulties DOD is experiencing with properly accounting for Ukraine security assistance, how would a Special Inspector General for Ukraine Assistance aid you in this effort?

- No, a Special Inspector General for Ukraine Assistance would not aid DOD in accounting for Ukraine security assistance. DOD self-identified the incorrect valuation of defense article provided to Ukraine and took steps to correct this issue. The DOD Office of Inspector General (OIG) is actively conducting audits of the Ukraine security assistance efforts and issued multiple management advisory reports regarding Ukraine assistance. Additionally, DOD OIG conducts annual audits of the DoD Financial Statements.