

VA Financial Policies and Procedures
Operating Materials and Supplies

CHAPTER 8A

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0801 OVERVIEW

This chapter prescribes the Department of Veterans Affairs (VA) financial policies and procedures for operating materials and supplies. VA maintains a variety of operating materials and supplies with end users¹, including medical and pharmaceutical supplies. Despite expensing them upon purchase, operating materials and supplies have continuing and often significant value for some time after purchase. As a result, additional procedures are required to account for and control them until they have been consumed in operations or have otherwise been disposed of.

Appropriate control techniques will vary among VA facilities and offices, depending on such factors as the quantity, dollar value and demand for these items, as well as the need for accurate cost information. In selecting appropriate techniques, VA will consider the general requirements of management for visibility, accountability and control in all financial matters. Through proper administrative management of operating materials and supplies, custodians are held accountable for the assets under their control and decision-making on the acquisition and utilization of assets can be facilitated.

0802 POLICIES

080201 VA will utilize the purchase method of accounting for operating materials and supplies, recording an expense immediately upon purchase.

080202 VA will ensure that operating materials and supplies are properly controlled and accounted for to ensure compliance with Federal requirements, such as Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control, December 21, 2004, and to prevent the waste, fraud and mismanagement of VA financial resources.

0803 AUTHORITY AND REFERENCES

080301 [Statement of Federal Financial Accounting Standards \(SFFAS\) No. 3, Accounting for Inventory and Related Property](#)

080302 [Office of Management and Budget \(OMB\) Circular A-123, Management's Responsibility for Internal Control, December 21, 2004](#)

080303 [OMB Circular A-136, Financial Reporting Requirements - Revised](#)

080304 [VA Directive 7127, Material Management Policy, September 19, 1995](#)

¹VA defines an end user as a VA medical center, regional office or cemetery.

0804 ROLES AND RESPONSIBILITIES

080401 The Assistant Secretary for Management/Chief Financial Officer (CFO), as required by the Chief Financial Officers Act of 1990 and 38 U.S.C. 309, oversees all financial management activities relating to the Department's programs and operations. Specific responsibilities include the direction, management and provision of policy guidance and oversight of VA's financial management personnel, activities and operations. The CFO establishes financial policy, systems and operating procedures for all VA financial entities and provides guidance on all aspects of financial management.

080402 Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Chief Accountants, and other key officials are responsible for ensuring compliance with the policies and procedures set forth in this chapter.

080403 The Office of Financial Policy (OFP), under the CFO's direction, provides VA-wide financial policy and guidance. Among its responsibilities, OFP develops, coordinates, issues, evaluates and reviews VA financial policies, including those that impact financial systems, and procedures for compliance with all financial laws and regulations. OFP also develops financial policies and procedures for operating materials and supplies.

080404 The requirements of this chapter are applicable to VA Headquarters and VA Administrations, including Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers, Accounting Chiefs and VA contractors, to the extent of any asset reporting requirement incorporated in contracts.

080405 VA's Office of Acquisition and Logistics (OA&L) is responsible for supporting VA's vast array of diverse programs and functions involving expenditures for supplies and services. OA&L has a Governmentwide role in the supply management of medical supplies and non-perishable subsistence. Because of its Departmentwide and Governmentwide mission, as well as its role in protecting the integrity of the procurement and supply system, OA&L is organizationally independent of the activities it serves. As a principal VA staff office, OA&L reports to the Secretary and provides goods and services needed by client activities. All OA&L operations are funded through the self-sustaining VA Supply Fund.

0805 PROCEDURES

080501 Identification

A. To maintain effective internal control and accountability, VA will administratively classify all operating materials and supplies into the following three categories:

1. Operating materials and supplies held for use.

2. Operating materials and supplies held in reserve for future use.
3. Excess, obsolete and unserviceable operating materials and supplies.

080502 Recognition

The purchase method of accounting will be applied when recording operating materials and supplies (i.e., expensed when purchased.)

080503 Accounting and Valuation

A. Although operating materials and supplies are immediately expensed on purchase, there is continuing need for adequate internal controls and proper accountability over such stock.

1. VA will adhere to a series of existing internal VA material management policies and procedures to ensure adequate protection and accountability. VA Directive 7127 and related Handbooks provide guidance to implement or supplement the Federal Property Management Regulations in areas of material management.
2. Guidance is available in key areas such as classification of property, accounting requirements, physical inventories, supply fund management and inventory accounting. For example, in October 2005, VA Handbook 7127 was amended to modify inventory requirements and procedures for VA personal property to ensure adequate protection and accountability regarding sensitive assets valued under \$5,000.
3. Source documents, such as contracts, invoices, receiving reports and payment vouchers should be used to assist in determining the value of operating materials and supplies for control and accountability purposes.
4. VA will use the replacement value approach in assigning a value to operating materials and supplies, unless some other method would provide a more reasonable assessment of the value.

080504 Reporting and Disclosure Requirements

A. VA will identify the purchase method of accounting for operating materials and supplies in notes to the annual consolidated financial statements required by the Department of the Treasury.

0806 DEFINITIONS

080601 Asset. A resource that embodies economic benefits or services that the VA controls. An asset has two essential characteristics: (1) it embodies economic benefits

or services that can be used in the future and (2) VA controls access to the economic benefits or services and, therefore, can obtain them or deny or regulate their access to other entities.

080602 Cost. The monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce goods or to perform an activity or service.

080603 Excess, Obsolete and Unserviceable Operating Materials and Supplies.

A. "Excess operating materials and supplies" are stocks of operating materials and supplies that exceed the amount expected to be used in normal operations in the foreseeable future and that do not meet management's criteria to be held in reserve for future use.

B. "Obsolete operating materials and supplies" are operating materials and supplies that are no longer needed due to changes in technology, laws, customs or operations.

C. "Unserviceable operating materials and supplies" are operating materials and supplies that are physically damaged and cannot be consumed in operations.

080604 Expense. An outflow of or other decrease in assets, an increase in liabilities or a combination of both that results in a decrease in the Government's net position during the reporting period.

080605 Operating Materials and Supplies. An inventory category that is composed of tangible personal property to be consumed in normal business operations.

080606 Operating Materials and Supplies - Held for Use, (Store Stock). Material which is held and repetitively procured, stored and issued on the basis of recurring demand; considered "operating materials and supplies" under SFFAS No. 3.

080607 Operating Materials and Supplies - Held in Reserve. Stocks of operating materials and supplies may be maintained because they are not readily available in the market or because there is more than a remote chance that they will eventually be needed, although not necessarily in the normal course of operations. These stocks shall be classified as operating materials and supplies held in reserve for future use.

080608 Purchase Method. Under this method of accounting for operating materials and supplies, inventory purchases are immediately expensed, debiting an expense and crediting cash or accounts payable. The purchase method may be used for operating materials and supplies that are not significant in dollar amount and are in the hands of end users for use in normal operations.

080609 Recognition. The process of formally recording or incorporating an item into the financial statements of an entity as an asset, liability, revenue, expense, or the like. A recognized item is depicted in both words and numbers, with the amount included in the statement totals. Recognition comprehends both initial recognition of an item and recognition of subsequent changes in or removal of a previously recognized item.

080610 Replacement Value. Refers to an amount that an entity would have to pay, at the present time, to replace any one of its assets.

080611 Valuation. A process for calculating the monetary value of an asset or liability.

0807 RESCISSIONS

This chapter rescinds VA Directive 4666, Inventory and Related Property, March 23, 1998, paragraphs 2a and 2d.

0808 QUESTIONS

Questions concerning these financial policies and procedures should be directed as shown below:

VHA	VHA Accounting Policy (Outlook)
VBA	VAVBAWAS/CO/FINREP (Outlook)
All Others	OFP Office of Financial Policy (Outlook)