

VA Financial Policies and Procedures  
Stockpile Materials

CHAPTER 8B

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## 0801 OVERVIEW

This chapter prescribes accounting policies and procedures for the Department of Veterans Affairs (VA) stockpile materials. Stockpile materials are strategic and critical materials held, due to statutory requirements, for use in national defense, conservation or national emergencies.

VA stockpile materials consist of caches of pharmaceuticals and medical supplies stored at designated VA treatment facilities and reserved for the treatment of casualties from a mass destruction event. These caches (also known as “All-Hazards Emergency Caches”<sup>1</sup>) are specifically intended to treat Veterans, staff and other victims who seek medical assistance that may present from local VA medical centers. “All-Hazards Emergency Caches” are designed to ensure short-term preservation of the VA health care infrastructure until other resources are available in the immediate area and to support the facility’s involvement in a local, regional or national emergency.

The primary Public Laws and authorities governing VA implementation and maintenance of emergency stockpiles are outlined below.

VA/Department of Defense (DOD) Contingency Hospital System, Public Law 97-174, May 1982, implemented in accordance with [38 C.F.R. 17.230](#), requires VA to serve as the primary contingency back-up to DOD medical services.

The National Disaster Medical System (NDMS) was established in 1984 by agreement between DOD, the Department of Health and Human Services (HHS), the Federal Emergency Management Agency (FEMA) and VA. NDMS provides the capability to treat large numbers of patients who are injured in a major peacetime disaster within the continental United States or to treat casualties resulting from a conventional military conflict overseas.

A Federal Response Plan (FRP), required by [Public Law 93-288, the Robert T. Stafford Act as amended, April 1992](#), established the architecture for a systematic, coordinated and effective Federal response, in which VA plays a vital role, to a disaster or emergency situation.

[Executive Order 12656, Assignment of Emergency Preparedness Responsibilities, November 1988](#), charged VA to plan for emergency health care services for Veterans, active duty personnel and, as resources permit, for civilians in communities affected by national security emergencies.

[Presidential Decision Directive - 62, Combating Terrorism, May 1998](#), tasked the U.S. Public Health Service (USPHS), working with the VA, with the responsibility for ensuring

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<sup>1</sup>For additional program information on VA’s “All-Hazards Emergency Caches,” refer to VHA Directive 2008-001, dated January 15, 2008.

that adequate stockpiles of antidotes and other necessary pharmaceuticals are maintained nationwide and for training medical personnel in NDMS hospitals.

Under the provisions of the FRP, VA is involved in the planning for and response to, catastrophic disasters that require Federal assistance. Under Presidential Decision Directive 62 (PDD 62), VA has an agreement with USPHS to maintain caches of pharmaceuticals at strategic locations throughout the United States that might be needed for treatment of victims of an event involving weapons of mass destruction (WMD). If an event occurred, these caches would be deployed to the site of the incident to augment the capability of the National Medical Response Teams (NMRTs) that are maintained and directed by the USPHS. In addition, these pharmaceuticals would provide supplemental capability to local medical caregivers and facilities to treat WMD victims.

VA also functions as a partner with the Department of Health and Human Services' Office of Emergency Preparedness (OEP) in the procurement, inventory, storage, maintenance and delivery of medical supplies that might be needed by NMRTs to treat victims where WMD might have been used. The development and maintenance of these stockpiles are integral parts of the nation's ability to provide needed health care following an emergency. OEP officials determine the content of the inventories; provide funding for the procurement, maintenance and deployment of the medical supplies; and determine the locations of the stockpiles at sites across the United States.

When accounting treatment for specific circumstances is not discussed in this chapter, reference should be made to Statements of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*, for guidance.

VA adheres to the consumption method of accounting for inventoried stockpile materials. The consumption method provides that these items be expensed when used.

## **0802 POLICIES<sup>2</sup>**

080201 VA will ensure that adequate financial controls are in place and that financial records and reports accurately reflect the status of the stockpile materials.

080202 VA will ensure that stockpile materials are recorded using the consumption method of accounting for the recognition of expense in compliance with SFFAS No. 3.

## **0803 AUTHORITY AND REFERENCES**

080301 [Public Law 97-174, "Veterans Administration and Department of Defense Health Resources Sharing and Emergency Operations Act," 1982. Implemented at 38 C.F.R. 17.230.](#)

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<sup>2</sup>The policy on implementing the consumption method for stockpile material will become effective on October 1, 2010.

080302 FEMA 592, June 2007 presentation - Public Law 93-288, the Robert T. Stafford Act as amended, April 1992

080303 Executive Order 12656, Assignment of Emergency Preparedness Responsibilities, November 1988

080304 Presidential Decision Directive - 62, Combating Terrorism, May 1998

080305 Statement of Federal Financial Accounting Standards (SFFAS) Number 3, Accounting for Inventory and Related Property

080306 Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements

#### **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 Department-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 and develops policies and procedures for stockpile materials.

080404 These requirements are applicable to VA Headquarters and VA Administrations, including Under Secretaries, Assistant Secretaries, Chief Financial Officers, Fiscal Officers and Accounting Chiefs and to VA contractors, to the extent that the asset reporting requirements are incorporated into contracts. This chapter applies to all VA-owned and VA-owned, Contractor-held stockpile materials.

## 0805 PROCEDURES

### 080501 Identification

A. VA will classify all strategic and critical operating materials and supplies held in reserve for future use as stockpile materials.<sup>3</sup>

1. Stockpile materials are held in reserve, as authorized under statutory requirements, to respond to national defense, conservation or national emergencies.
2. Stockpile materials are not held with the intent of selling in the ordinary course of business.

B. The following items are specifically excluded from VA stockpile materials:

1. Items that are held by an agency for sale or use in normal operations;
2. Items that are held for use in the event of an agency-specific internal operating emergency or contingency;<sup>4</sup> and
3. Materials acquired to support market prices.

### 080502 Recognition

A. The consumption method of accounting for the recognition of expenses will apply to VA stockpile materials.

B. Stockpile materials will be recognized as assets and reported when produced or purchased (that is, the date that title passes to VA).

C. If the contract between the buyer and the seller is silent regarding the passage of title, title is assumed to pass upon delivery of the goods.

D. The cost of stockpile materials will be removed from stockpile materials and reported as an operating expense when issued.

### 080503 Valuation

A. Stockpile materials will be valued on the basis of historical cost. Historical cost will include all appropriate purchase, transportation and production costs incurred to bring the items to their current condition and location.

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<sup>3</sup>Also referred to as Stand-By-Stock.

<sup>4</sup>These are events within VA itself involving operating emergencies or contingencies.

B. Any abnormal costs, such as excessive handling or rework costs, will be charged as a normal operating expense of the period to Standard General Ledger account 6100 – Operating Expenses/Program Costs.

C. The weighted average cost method will be applied in arriving at the historical cost of stockpile materials.

D. Exception to Valuation

1. The carrying amount of VA materials that have suffered: (a) a permanent decline in value to an amount less than their cost; or (b) damage or decay, will be reduced to the expected net realizable value of the materials.

2. The decline in value will be recognized as an expense in the period in which it occurs.

080504 Held for Sale

Although stockpile materials are not held with the intent of selling in the ordinary course of business, circumstances or unforeseen events may necessitate the materials being reclassified as “held for sale.”

A. When stockpile materials are authorized to be sold, those materials will be disclosed as stockpile materials held for sale.

B. The materials authorized for sale will be valued using the same basis used before they were authorized for sale.

C. Any difference between the carrying amount of the stockpile materials held for sale and their estimated selling price will be disclosed.

D. The cost of stockpile materials will be removed from stockpile materials and reported as cost of goods sold when sold.

E. Any gain (or loss) upon disposal will be recognized as a gain (or loss) at that time.

080505 Accounting for Stockpile Materials<sup>5</sup>

Detailed posting transactions are outlined in [USSGL Treasury Financial Manual, Section III](#).

A. Stockpile Materials Held in Reserve (United States General Ledger (USSGL) Account 1571)

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<sup>5</sup>VA Directive 4005, April 27, 2007 established procedures to account for incremental costs incurred in connection with “declared emergencies.”

1. "Stockpile Materials Held in Reserve" is used to account for the value of stockpile materials, as stockpile materials are not held with the intent of selling in the ordinary course of business.
2. Table 1 illustrates the most common entries used for this account.

| <b>ACCOUNTING ENTRIES FOR ACCOUNT 1571-<br/>STOCKPILE MATERIALS HELD IN RESERVE</b> |                                     |
|---|-------------------------------------|
| 1. Dr 1571  | Stockpile Materials Held in Reserve |
| Cr 2110   | Accounts Payable                    |
| To record receipt of stockpile material.  |                                     |
| 2. Dr 6100  | Operating Expenses/Program Costs    |
| Cr 1571   | Stockpile Materials Held in Reserve |
| To record stockpile materials issued for use under the consumption method.          |                                     |

TABLE 1

B. Stockpile Materials Held For Sale (USSGL Account 1572)

1. "Stockpile Materials Held For Sale" is used to account for stockpile materials that have been authorized for sale. The materials authorized for sale will be valued using the same basis used before they were authorized for sale. Any gain (or loss) upon sale shall be recognized as a gain (or loss) at that time.
2. Table 2 illustrates the most common entries used for this account.

| <b>ACCOUNTING ENTRIES FOR ACCOUNT 1572-<br/>STOCKPILE MATERIALS HELD FOR SALE</b> |   |
|---|---|
| 1. Dr 1572  | Stockpile Materials Held For Sale       |
| Cr 1571   | Stockpile Materials Held in Reserve     |
| Entry to reclassify stockpiles from "Held in Reserve" to "Held for Sale."         |   |
| 2. Dr 1010  | Fund Balance With Treasury              |
| Dr 7210   | Losses on Disposition of Assets - Other |
| Cr 1572   | Stockpile Materials Held For Sale       |
| Entry to recognize sale of stockpile materials when a loss on its sale results.   |   |
| 3. Dr 1010  | Fund Balance With Treasury              |
| Cr 1572   | Stockpile Materials Held For Sale       |
| Cr 7110   | Gains on Disposition of Assets - Other  |
| Entry to recognize sale of stockpile materials when a gain on its sale results.   |   |

TABLE 2

080506 Reporting and Disclosure Requirements

A. Stockpile materials are to be included in “Inventory and Related Property” of the financial statement balance sheet, as prescribed by OMB Circular A-136.

B. Additional information about stockpile materials will be disclosed in the notes accompanying financial statements (Note 9, “Inventory and Related Property, Net”).

C. Disclosure requirements for stockpile materials, as prescribed under SFFAS No. 3 and OMB Circular A-136, are as follows:

1. General composition of stockpile materials.
2. Basis for valuing stockpile materials, including valuation method and any cost flow assumptions.
3. Changes from prior year's accounting methods, if any.
4. Restriction on the use of material.
5. Balances of stockpile materials in each of the following categories: stockpile materials and stockpile materials held for sale.
6. Decision criteria for categorizing stockpile materials as held for sale.
7. Changes in the criteria for categorizing stockpile materials as held for sale.

D. The provisions of this statement need not be applied to immaterial items.

080507 Disposition

VA will take appropriate disposition action on stockpile materials that have deteriorated or have been subjected to physical damage beyond usefulness to (1) respond to national defense, conservation or national emergencies; and/or (2) undergo reclassification as “held for sale”.

**0806 DEFINITIONS**

080601 Antidote. A remedy or other agent used to neutralize or counteract the effects of a poison; an agent that relieves or counteracts.

080602 Asset. A resource that embodies economic benefits or services that the Federal Government controls.

080603 Consumption Method of Accounting. The method under which purchases are initially recorded as assets. When used, they are subsequently recorded as

expenditures or expenses. The consumption method is a process for recognizing an expense, in the sense that the eventual use (consumption) results in the recognition in the expenditure account. For example, under the consumption method, the acquisition of stockpile materials is viewed as the conversion of resources (from cash to stockpile materials), not the use of resources. Therefore, the entity still has resources to use.

080604 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.

080605 Disposition. When assets of an entity are removed either by sale, trade or discard.

080606 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.

080607 Purchase Date. The date that title passes to the purchasing entity.

080608 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.

080609 Stockpile Materials. Strategic and critical operating materials held due to statutory requirements for use in national defense, conservation or national emergencies. They are not held with the intent of selling in the ordinary course of business. The following items are specifically excluded from stockpile materials: (a) items that are held by an agency for sale for use in normal operations, (b) items that are held for use in the event of an agency's operating emergency or contingency and (c) materials acquired to support market prices (that is, commodities specifically acquired, held, sold or otherwise disposed of to satisfy or help satisfy economic goals).

080610 Stockpile Materials Held in Reserve for Future Use (Stand-By Stock). Materials held for emergencies are deemed "stockpile materials" under SFFAS No. 3.

080611 Useful Life. The normal operating life in terms of utility to the owner.

080612 Valuation. A process for calculating the monetary value of an asset or liability.

080613 Weighted Average Cost Method. An inventory costing method used in conjunction with a perpetual inventory system. An average cost per unit is computed at the end of an accounting period (determined by dividing the total cost of all units available for use (consumption) by the number of units) and then extended to all units in

the ending inventory. The cost of the goods consumed is recorded at the most recent average cost.

**0807 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 Accounting Policy (Outlook) |