



Department of Veterans Affairs

Financial Policy

Volume V

Assets

Chapter 8

Inventories, Materials, and Supplies

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0801 Overview

This chapter establishes the Department of Veterans Affairs’ (VA) financial policies for the accounting and reporting of inventory, operating materials and supplies (OM&S), and stockpile materials.

Key points covered in this chapter:

- VA will comply with the classification, accounting, and reporting requirements as defined in Statements of Federal Financial and Accounting Standards (SFFAS) 3, Accounting for Inventory and Related Property;
- VA will adhere to existing internal VA material management policies and procedures to ensure adequate protection and accountability. VA Directive 7002 and related Handbooks provide guidance to implement or supplement the Federal Property Management Regulations in areas of material management;
- VA will maintain stockpile materials and supplies for use in national defense, conservation, or national emergencies; and
- VA will report inventory, OM&S, and stockpile materials in accordance with Office of Management and Budget (OMB) Circular A-136.

0802 Revisions

See Appendix A for a full listing of previous revisions to this policy.

Section	Revision	Office	Reason for Change	Effective Date
Various	Reformatted to new policy format and completed five-year update	OFP (047G)	Reorganized chapter layout	July 2021
0801 Overview	Updated overview to new format	OFP (047G)	Reorganization to Policy chapter	July 2021
0802 Revisions	Moved previous policy revisions to Appendix A	OFP (047G)	Lengthy past revisions	July 2021
0803 Definitions	Updated definitions	OFP (047G)	Updated and added definitions for clarity	July 2021
0804 Roles and Responsibilities	Removed OFP role from previous version	OFP (047G)	Updated role titles for clarity	July 2021

0803 Definitions

Asset – Tangible or intangible items owned by the Government which have probable economic benefits controlled by a Federal entity. 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 and therefore can regulate their use.

Consumption Method of Accounting – The method under which purchases are recognized and reported as assets when produced or purchased and reported as expense in the period when issued to an end user.

Disposition – When assets of an entity are removed either by sale, trade, or appropriate disposal.

Excess operating materials and supplies – 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.

Inventory – Tangible personal property that is held for sale, is in the process of production for sale, or is to be consumed in the production of goods for sale or in the provision of services for a fee. Excluded are day-to-day operating materials and supplies. Inventory shall be categorized as (1) inventory held for sale, (2) inventory held in reserve for future sale, (3) excess, obsolete, and unserviceable inventory, or (4) inventory held for repair. See SFFAS 3 for detailed information on categorizations.

Operating Materials and Supplies – Tangible personal property to be consumed in normal operations. Operating materials and supplies shall be categorized as (1) operating materials and supplies held for use, (2) operating materials and supplies held in reserve for future use, or (3) excess, obsolete, and unserviceable operating materials and supplies. See SFFAS 3 for detailed information on categorizations.

Purchase Method – Provides that operating materials and supplies be expensed when purchased.

Recognition – The process of formally recording or incorporating an item into the financial statements of an entity. Recognition comprises depiction of an element in both words and numbers, with the amount included in the totals of the financial statements. For an asset or liability, recognition involves recording not only acquisition or incurrence of the item but also later changes in it, including changes that result in removal from the financial statements.

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).

Unserviceable Inventory – Inventory that is more economical to dispose of than to repair.

Unserviceable operating materials and supplies – Operating materials and supplies that are physically damaged and cannot be consumed in operations.

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

Weighted Average Cost Method – An inventory costing method used in conjunction with a perpetual inventory system. An average cost per unit (determined by dividing the total cost of all units available for sale by the number of units) is computed at the end of an accounting period and then extended to all units in the ending inventory. Goods sold are costed at the most recent average cost.

0804 Roles and Responsibilities

Assistant Secretaries, Under Secretaries, Other Key Officials, Administration and Staff Office CFOs, and Fiscal Officers are responsible for ensuring compliance with the policies set forth in this chapter.

Consolidated Mail Outpatient Pharmacy (CMOP) is a VA program consisting of seven automated pharmacies throughout the United States delivering outpatient medications to Veterans.

Chief Financial Officers (CFOs) and Staff Office/Administration Fiscal Staff are primarily responsible for the appropriate recording and reporting of assets under their jurisdiction.

Financial Services Center is responsible for providing support for the accounting and reporting of VA's assets, including posting, reconciling, and recording asset transactions and events, as requested.

0805 Policies

080501 General Policies

- A. VA will comply with guidance in SFFAS 3, Accounting for Inventory and Related Property, which provides accounting standards for tangible property other than long term fixed assets, held by VA. Inventory available and purchased for resale consists primarily of items held for current sales, such as Veterans Canteen Service (VCS) retail store stock. VCS provides retail merchandise, food, and vending services across the country. Related property includes OM&S and stockpile material. OM&S includes items such as pharmaceuticals at Consolidated Mail Outpatient Pharmacies (CMOP), which are recognized using the purchase method and Supply Fund purchases of Operating, Medical and Pharmaceutical Supplies which are recognized using the consumption method.
- B. VA will comply with applicable guidance from OMB A-136, on financial reporting requirements of tangible assets.

080502 Inventory

- A. VA will recognize inventory in its accounting records when title passes or when the goods are delivered to VA. Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery.
- B. VA will remove inventory from its records (when title passes from VA or the goods are delivered by VA) or upon use when a service is provided and the related expense is recognized. Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery.
- C. VA will categorize inventory as:
- Inventory held for sale;
 - Inventory held in reserve for future sale;
 - Excess, obsolete, and unserviceable inventory; or
 - Inventory held for repair.
- D. VA will record inventory held for sale at cost and will include appropriate purchase, transportation and production costs incurred to obtain the inventory item.
- E. VA will use the weighted-average cost method for inventory held for sale to determine ending inventory values and the cost of goods sold. When using the weighted average method, the cost of goods available for sale are divided by the number of units available for sale, yielding the weighted-average cost per unit. This weighted average figure is then used to assign a cost to both ending inventory and cost of goods sold.

- F. VA will adhere to Directive 7002 Logistics Management Policy which provides reporting guidelines and frequencies for physical inventories.
- G. VA will carry inventory that is excess, obsolete, or unserviceable at its estimated net realizable value. Upon disposition, any difference between the inventory's recorded amount and the value received for the inventory will be recognized as a gain or loss.
- H. VA will value inventory acquired through exchange of nonmonetary assets (e.g., barter) at the fair value of the asset received at the time of the exchange. Any difference between the recorded amount of the asset surrendered and the fair value of the asset received shall be recognized as a gain or a loss.
- I. VA will value donated inventory at its fair value at the time of donation.
- J. VA will disclose in the notes to the financial statements the following about its inventory:
- General composition of inventory;
 - Basis for determining inventory values, including the valuation method and any cost flow assumptions;
 - Changes from prior years' accounting methods, if any;
 - The difference between the carrying amount of the inventory before identification as excess, obsolete or unserviceable inventory and its expected net realizable value;
 - Any restriction on the sale of inventory;
 - Decision criteria for identifying the category to which inventory is assigned; and
 - Any changes in the criteria for identifying the category to which inventory is assigned.

080503 Operating Materials and Supplies

- A. Operating materials and supplies consist of tangible personal property to be consumed in the course of normal operations.
- B. VA will recognize and report OM&S as assets when produced or purchased. If the contract between the buyer and the seller is silent regarding passage of title, title is assumed to pass upon delivery of the goods. Delivery or constructive delivery shall be based on the terms of the contract regarding shipping and/or delivery.
- C. VA will utilize the consumption method of accounting for the recognition of OM&S expense. SFFAS 3 permits use of the purchase method (in lieu of the consumption method) of accounting for the recognition of expenses of OM&S if:
- The materials and supplies are not significant amounts;
 - The materials and supplies are in the hands of the end user for use in normal operations; or

- It is not cost beneficial to apply the consumption method.
- D. VA will value OM&S on the basis of historical cost or on a basis that reasonably approximates historical cost and will include appropriate purchase, transportation and production costs incurred to obtain the inventory item.
- E. VA will disclose the following for OM&S:
- General composition of OM&S;
 - Basis for determining inventory values, including the valuation method and any cost flow assumptions;
 - Changes from prior years' accounting methods, if any;
 - Balances for each of the categories of operating materials; and
 - Any restriction on the use of material.

080504 Stockpile Materials

- A. VA will classify all strategic and critical OM&S held in reserve for future use as stockpile materials. Veterans Health Administration (VHA) Pharmacy Benefits Management (PBM) service manages the Emergency Pharmacy Services (EPS) program, which acquires and maintains stockpile materials in emergency caches. Stockpile materials are strategic and critical materials held in reserve for use in national defense, conservation, or national emergencies, per statutory requirements. VA stockpile materials consist of caches of pharmaceuticals and medical supplies stored at designated treatment facilities. They are not held with the intent of selling in the ordinary course of business.
- B. VA will recognize and report stockpile materials as assets when produced or purchased (that is, the date that title passes to VA). 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. The cost of stockpile materials issued for use or sale will be removed from the value of the asset "stockpile materials" and reported as an operating expense.
- C. VA will utilize the consumption method of accounting for the recognition of stockpile materials expense.
- D. VA will value stockpile materials 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. Any abnormal costs, related to stockpile materials such as excessive handling or rework costs shall be charged as an operational expense of the current reporting period.
- E. VA will apply the first-in, first-out (FIFO); weighted average or moving average cost flow assumption in arriving at the historical cost of stockpile materials.

- F. VA will reduce the carrying amount of stockpile materials that have suffered a permanent decline in value to an amount less than their cost or damage or decay to the expected net realizable value of the materials. The decline in value shall be recognized as a loss or an expense in the period in which it occurs.
- G. VA will disclose the following for stockpile materials:
- General composition of stockpile materials;
 - The basis for valuing stockpile materials, including the valuation method and any cost flow assumptions;
 - Changes from prior years' accounting methods, if any;
 - Any restriction on the use of materials;
 - Balances for each of the categories of operating materials;
 - The decision criteria for categorizing stockpile materials as held for sale; and
 - Changes in criteria for categorizing stockpile materials as held for sale.

0806 Authorities and References

[41 C.F.R Part 101-27 – Inventory Management](#)

[Executive Order 12656, Assignment of Emergency Preparedness Responsibilities, November 1988](#)

[FEMA P-592, May 2019 Public Law 93-288, the Robert T. Stafford Act as Amended](#)

[Office of Management and Budget \(OMB\) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control July 15, 2016](#)

[Office of Management and Budget \(OMB\) Circular A-136, Financial Reporting Requirements - Revised](#)

[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.](#)

[Public Law 115-419, Federal Personal Property Management Act of 2018](#)

[Statement of Federal Financial Accounting Standards \(SFFAS\) 3, Accounting for Inventory and Related Property](#)

[VA Directive 7002 Logistics Management Procedures, January 8, 2020](#)

[VA Financial Policy Volume II, Chapter 10A – Supply Fund](#)

[VA Handbook 0320 Comprehensive Emergency Management Program March 24, 2005](#)

[VA Handbook 7348, Utilization and Disposal of Personal Property, January 8, 2020](#)

0807 Rescissions

OFP Volume V Chapter 8, Inventories, Supplies, and Materials dated May 2017

0808 Questions

Questions concerning this financial policy should be directed to the following points of contact:

VHA	<u>VHA 10A3A Accounting Policy (10A3A)</u> (Outlook)
VBA	<u>VAVBAWAS/CO/FINREP</u> (Outlook)
All Others	<u>OFP Accounting Policy</u> (Outlook)

Appendix A: Previous Policy Revisions

Previous policy versions were in a different numerical and sequential format. Sections have been moved, revised, and removed in the updated version. Contact the Office of Financial Policy for specific questions on the history of revisions to this policy, or to obtain copies of archived versions.

Section	Revision	Office	Date
0802 Policies	Added reference to alternative valuation method for beginning balances as prescribed by SFFAS 48 at 080204.	APPS (047GA)	April 2017
Overall	Merge Volume V, Chapters 8,8a,8b into one Chapter 8, Inventories, Supplies, and Materials	APPS (047GA)	June 2014
0801 Overview	Added paragraph on controls of operating supplies. Where necessary added headers for the three being discussed.	APPS (047GA)	June 2014
0801 Overview	Updated footnote with VHA policy reference to cache procedures.	APPS (047GA)	June 2014
0803 Authority and References	Updated references and hyperlinks.	APPS (047GA)	June 2014
0804 Roles and Responsibilities	Updated sections for VA CFO and OAL	APPS (047GA)	June 2014
080501	Changed wording for clarity when items are sold or services provided.	APPS (047GA)	June 2014
080504	Added VA will rely on OAL for managing operating supplies and removed the detail procedures for categorizing operating materials. Added footnote referencing VHA Handbook 1761.02.	APPS (047GA)	June 2014

Section	Revision	Office	Date
080506	Removed reference to old policy. Added parenthetical (current costs) for clarity in A4.	APPS (047GA)	June 2014
080508	Added a reference to VA Office of Public Health for stockpile policy and Emergency Pharmacy Service for inventory control of stockpile materials.	APPS (047GA)	June 2014
080511 and 080512	Moved detailed procedures for stockpile held for sale and transactions to Appendix A, and renumbered remaining paragraphs. In new 080511, added reference to Appendix A.	APPS (047GA)	June 2014
080605	Replaced discard with appropriate dispose in definition.	APPS (047GA)	June 2014
0807 Rescissions	Updated rescissions section	APPS (047GA)	June 2014
0808 Questions	Updated VHA address	APPS (047GA)	June 2014
0809 Revisions	Section added	APPS (047GA)	June 2014
Appendix A	Added Appendix for Accounting for Stockpiles and updated policy reference for accounting for declared emergencies.	APPS (047GA)	June 2014