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COMPTROLLER

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MEMORANDUM FOR ASSISTANT SECRETARIES OF THE MILITARY DEPARTMENTS (FINANCIAL MANAGEMENT AND COMPTROLLER)
DEFENSE AGENCY AND DOD FIELD ACTIVITY CHIEF FINANCIAL EXECUTIVES

SUBJECT: Operating Materials and Supplies Definition of End Users Guidance (FPM25-07)

References: (a) Statement of Federal Financial Accounting Standards (SFFAS) 3, "Accounting for Inventory and Related Property", September 2024
(b) Department of Defense Manual (DoDM) 4140.01, Volume 1, "DoD Supply Chain Material Management Procedures: Operation Requirements, December 2018
(c) DoD Financial Management Regulation (FMR) Volume 4, Chapter 4, "Inventory and Related Property," July 2025

This memorandum provides guidance for the Department of Defense (DoD) Components to define end users to support implementation of the Purchases Method of accounting (hereinafter Purchases Method) for Operating Material and Supplies (OM&S) when "they are in the hands of the end user" in accordance with reference (a). The Purchases Method provides for OM&S to be expensed when purchased. DoD Components should apply the Purchases Method to all OM&S considered to be in the hands of an end user for use in normal operations. OM&S accounting treatment for financial management purposes is independent of accountability requirements for logistics or supply management.

Regardless of the accounting method used, an end user is any DoD Component of a reporting entity that obtains goods for direct use in the Component's normal operations. For purposes of identifying end users, DoD components should map their supply point structures to those described in reference (b): "wholesale", "retail", and "customer." Customers are operational elements within the Component's organizational structure, including their subordinate commands, that use or consume OM&S within their normal operations. Examples of customers include but are not limited to ships (e.g. shipboard storage), submarines, aircraft wings, missile wings, field level supply points and field units. OM&S with a customer is considered in the hands of the end user.

Normal operations include the necessary activities to carry out the DoD Component's mission, which is unique and includes objectives such as training, readiness, disposal/demilitarization, and deterrence required to execute the National Defense Strategy. Normal operations also include transfers out to non-federal entities, and transfers between end users to meet operational demands. Examples of evidence that OM&S is used in normal operations can be, but is not limited to, recurring requirements, high turnover rates, immaterial amounts on hand, or significant purchase activity.

Any Component of a reporting entity, including contractors, that primarily hold and manage OM&S to issue to an external activity, such as inventory control, prepositioned stock held for future use, or supply management depots is not considered an end user. In contrast, components that primarily hold OM&S in storage or holding areas for imminent use or redistribution for imminent use, such as a unit's supply support activity, are considered end users. OM&S held and managed for consumption within that activity itself is considered in the hands of the end user.

To assess the appropriate accounting treatment, DoD components must evaluate the materiality to the financial statements when OM&S items expensed under the Purchases Method are returned from the Component identified as the end user. DoD Components must maintain analyses and conclusions documenting the accounting position to use the Purchases Method. DoD Components must perform a review of their position at least once every two years and make it available to auditors from one fiscal year to the next.

This guidance takes immediate effect and will be integrated into the subsequent update to reference (c). My point of contact for strategic implementation is Mr. Stewart Petchenick at stewart.c.petchenick.civ@mail.mil or 703-571-1683. My point of contact for financial management policy is Mr. Jason Fuentes at jason.d.fuentes2.civ@mail.mil or 571-448-8166.

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