



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
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WASHINGTON, DC 20301-3000

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ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY  
(INSTALLATIONS AND ENVIRONMENT)  
ASSISTANT SECRETARY OF THE NAVY  
(INSTALLATIONS AND ENVIRONMENT)  
DEPUTY CHIEF OF STAFF FOR PERSONNEL, UNITED  
STATES AIR FORCE  
DIRECTOR, DEFENSE CONTRACT MANAGEMENT  
AGENCY  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE  
DIRECTOR, DEFENSE LOGISTICS AGENCY  
DIRECTOR, DEPARTMENT OF DEFENSE EDUCATION  
ACTIVITY

SUBJECT: Procedures for Implementing, Monitoring, and Reporting High Performing Organizations (HPO)

Section 337 of the National Defense Authorization Act of 2004 (Public Law 108-136) required the Secretary of Defense to establish a pilot program to designate high performing organizations (HPOs) through the conduct of Business Process Reengineering initiatives. In my memorandum of February 16, 2006, I announced the selection of eight HPOs for inclusion in the pilot program. This memorandum provides the procedures for implementing and monitoring the performance of, and costs for, these pilot HPOs. In addition, these procedures also apply to HPOs designated under OMB Circular A-76.

The Component Competitive Sourcing Official concerned shall ensure the Requiring Activity establishes a Letter of Obligation (LOO) that identifies a detailed plan of action for conducting the business process reengineering of the activities that will lead to implementation of the HPO. The LOO is a formal agreement that implements the HPO similar to a Most Efficient Organization LOO in OMB Circular A-76. The requirements for this plan of action are identified at Attachment 1. The Requiring Activity shall designate an official responsible for carrying out the content of the LOO and identify the official in the LOO. The LOO should be submitted to my office by December 15, 2006.



The Military Department, Defense Agency or DoD Field Activity concerned shall conduct annual performance reviews that evaluate performance measures as detailed in the LOO. This review will determine whether the organization is performing satisfactorily for purposes of continuing in the pilot program. For measuring performance improvement, the performance standards of the incumbent organization shall be used as a baseline for measuring the HPO's performance.

In addition to annual performance reviews, the organization shall track the costs of the HPO using the COMPARE analytical tool designed for evaluating public-private competitions under OMB Circular A-76. Performance reviews shall include an update of the COMPARE costing for comparison to the original baseline.

As required in the authorizing legislation, if the organization has met the milestones specified in the LOO plan of action, the organization shall be granted an additional five years to achieve projected or planned efficiencies and savings under the pilot program. If such progress has not been made by the date set, the organization's participation in the program will be terminated.

At the completion of the business process reengineering initiative, the Military Department, Defense Agency or DoD Field Activity concerned shall submit a report on the initiative to my office. This report shall, at a minimum, include a brief discussion of how each element in the LOO plan of action was accomplished and the results of the final performance review. This should include the COMPARE cost comparison analysis. As necessary, this report should also include a discussion of lessons learned.

If you have any questions regarding the requirements set out in this memorandum, please contact Ms. Lisa Jung of the Housing and Competitive Sourcing Office at (703) 602-4076 or [lisa.jung@osd.mil](mailto:lisa.jung@osd.mil).



Philip W. Grone  
Deputy Under Secretary of Defense  
(Installations and Environment)

cc: Deputy Director for Management, OMB

Attachment:  
As stated

**High Performing Organization Plan of Action**  
**Minimum Actions To be Taken During Business Process Reengineering**

1. Specify a start and end date for the business process reengineering process that will take place.
2. Specify a start date for the HPO and identify annual performance periods for tracking and reporting purposes.
3. Identify the activities, including civilian and military authorizations, by location, that will be subject to be included in the business process reengineering.
4. Include an organizational chart for the incumbent (as-is) projected organization and the HPO.
5. Identify the key actions that will take place during the business process reengineering effort.
6. Provide a schedule for each of the above key actions.
7. Identify individuals responsible for each of these key actions.
8. Identify how workload data will be identified, captured, and monitored for all performance periods.
9. Identify baseline costs for the incumbent organization and HPO.
10. Identify the incumbent organization's performance standards and for the HPO.
11. Issue a requirements document identifying the technical, functional, and performance characteristics of the needed requirements. This document is essentially the HPO's performance work statement, which is necessary to specify the required outcomes to be achieved, specifies required performance standards, and identifies the location, units, quality, and timeliness of the work to be performed.
12. Issue a quality control plan that will serve as the HPO's daily self inspection plan. This plan shall describe the internal staffing and procedures that will be used to meet the quality, quantity, responsiveness, customer satisfaction, and other tasks in the requirements document.
13. Issue a quality assurance surveillance plan that will be used to independently perform surveillance of the HPO's performance with individuals not in the HPO. This plan will document the methods used to measure performance of the HPO against the requirements document on a routine basis as determined by the inspector. At a minimum, this plan will include an annual report on the following:
  - Organic knowledge, skills or experience
  - Efficiency and effectiveness of key functions or processes
  - Efficiency and effectiveness of the overall organization
  - General customer satisfaction