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Comptroller General
of the United States

United States Government Accountability Office
Washington, DC 20548

July 13, 2006

The Honorable Edward M. Kennedy
United States Senate

Subject: *Differing Scope and Methodology in GAO and University of California Reports Account for Variations in Cost Estimates for Homosexual Conduct Policy*

Dear Senator Kennedy:

You requested information concerning differences in cost estimates for implementing the Department of Defense's (DOD) homosexual conduct policy reported by GAO and a University of California Blue Ribbon Commission (Commission). In February 2005,¹ we estimated that the cost to recruit and train replacements for enlisted servicemembers separated under the policy from fiscal years 1994 through 2003 was about \$190.5 million. A year later,² the Commission estimated that the cost was at least \$363.8 million over the same time period—91 percent more than our estimate. This report answers the following questions: (1) What factors contributed to the difference in estimated costs reported by GAO and the Commission? (2) What factors accounted for the difference in estimated enlistee training costs in our 1998³ and 2005 reports?

Difference in GAO and Commission Cost Estimates

Over 90 percent of the difference between the GAO and Commission cost estimates was in enlistee training costs. Our 2005 report estimated the cost to train replacements for servicemembers separated under the policy over the 10-year period at \$95.1 million, while the Commission's estimate was \$252.4 million. The differences in estimates are primarily attributable to two items. First, our estimate focused largely on the direct and incremental training costs associated with the specific occupations of servicemembers separated under the policy for the applicable years. The Commission based its estimate on average training costs for all occupations indexed for inflation. Secondly, the Commission's estimate included a significant overhead allocation for things like DOD's overall training infrastructure. As noted below, we do not believe that allocating such

¹ GAO, *Military Personnel: Financial Costs and Loss of Critical Skills Due to DOD's Homosexual Conduct Policy Cannot Be Completely Estimated*, GAO-05-299 (Washington, D.C.: Feb. 23, 2005).

² University of California Blue Ribbon Commission, "Financial Analysis of 'Don't Ask, Don't Tell': How much does the gay ban cost?" (Santa Barbara, Calif.: Feb. 14, 2006).

³ GAO, *Military Attrition: Better Data, Coupled With Policy Changes, Could Help the Services Reduce Early Separations*, GAO/NSIAD-98-213 (Washington, D.C.: Sept. 15, 1998).

fixed costs is appropriate since they represent sunk costs. Additionally, the Commission's estimate included training costs for the Marines, individuals in medical occupations, officers, and out-processing costs for separation travel. As we stipulated in our 2005 report, we did not include costs for the Marines because they were not capable of providing costs by occupational specialty. Additionally, the services could not reasonably estimate training costs for medical personnel and officers, and we did not consider separation travel costs in our analysis. In view of all the above, we stand behind our estimate of \$95.1 million.

As we disclosed in our 2005 report, for privacy reasons, we did not review separated servicemembers' personnel records, including their training histories. Instead, we used military specialty codes⁴ to match separated servicemembers to specific occupations. Relevant factors regarding this population—such as occupation, rank, length of service, and skill level—contributed to enlistee training cost averages for this finite group of individuals that were much lower than DOD-wide training cost averages for all enlistees. For example, over one-half of separated servicemembers had the rank of E2 or below and about one-third served in the military for 6 months or less, thereby limiting the amount of training completed. Additionally, about 30 percent of servicemembers separated over the 10-year period were in the occupational category “Not Occupationally Qualified, General,” indicating that they had not completed occupational training, been assigned to an occupation, or allowed to perform in an occupation on their own. We relied on the expertise and knowledge of the training commands in each service for case-by-case estimates of per-member training costs for separated servicemembers. For example, servicemembers classified by DOD as “Not Occupationally Qualified, General” were given credit for completing basic training in our analysis. Also, the training costs for each occupation were weighted by the number of servicemembers discharged in each occupation. As a result, occupations that had more servicemembers received more weight.

The Commission used in its analysis a DOD-wide training cost estimate from our 1998 report for the average cost of basic plus initial skills training for all enlistees in all occupations. Because this estimate includes costs for the entire training infrastructure, its use results in a much higher estimate. Infrastructure costs remain constant regardless of the number of individuals trained and represent sunk costs that exist whether enlistees complete their contract terms or not. The Commission also computed the value lost to the military by calculating a monthly return on the military's investment in training for service after training and before discharge. The Commission reported enlisted training costs of \$331.9 million, which were offset by their estimated return on investment of \$79.5 million; therefore, the cost to the military was \$252.4 million.

⁴ Military specialty codes are elements of the enlisted classification structure that identify an individual position or group of closely related positions by service on the basis of the duties involved. The term used to designate a military specialty differs according to the military service concerned, such as “military occupational specialty,” used by the Army and Marine Corps; “Air Force specialty,” used by the Air Force; and “Navy enlisted classification,” used by the Navy.

Difference in Training Cost Estimates
in Our 1998 and 2005 Reports

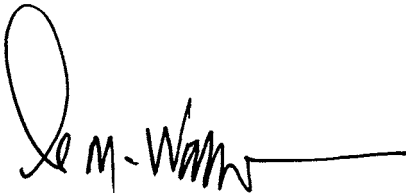
Although our 1998 and 2005 reports both dealt, in part, with enlistee training costs, the reports answered different questions, addressed different populations, covered different time frames, and used different parameters to compute training cost estimates. In 1998, we estimated the average cost of training an enlistee (basic and initial skills training) at \$28,800, which the Commission converted to \$33,372 in 2004 dollars in its analysis of the cost of DOD's homosexual conduct policy. The estimated per-member training cost for the occupations performed by servicemembers separated under the policy in our 2005 report was \$18,000 for the Navy, \$7,400 for the Air Force, and \$6,400 for the Army. These estimated costs are significantly lower than the Commission's estimate because they are primarily based on direct and incremental training costs.

Our 1998 estimate was designed to determine the extent of DOD's investment in recruiting and training first-term enlistees. The estimate includes total infrastructure costs for all services combined and was intended to demonstrate the magnitude of the cost of training all recruits (hundreds of thousands each year) and the potential loss when attrition rates are high. Average enlistee training costs were computed as a straight average by dividing the total costs of training by the total number of new enlistees. Including total infrastructure costs was not appropriate for our 2005 estimate since individuals separated for homosexual conduct represent such a small proportion of the active force (about 950 per year over the 10-year period). Our 2005 estimates were designed to identify costs over a 10-year period for training replacements by occupational specialty for those separated under the policy.

We are sending copies of this report to the Secretary of Defense and other interested parties. We will provide copies to others upon request. In addition, the report is available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact Derek Stewart at (202) 512-5559 or stewartd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Sincerely yours,



David M. Walker
Comptroller General
of the United States

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