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*REPORT TO THE CONGRESS*



Need For Improved Controls  
Over Appraisal Reports  
Supporting Prices Paid To  
Acquire Land For Highways  
In The States Of South  
Carolina And Tennessee

B-118653

Federal Highway Administration  
Department of Transportation

*BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES*

FEB. 2, 1968

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-118653

To the President of the Senate and the  
Speaker of the House of Representatives

The General Accounting Office has reviewed certain aspects of the Federal Highway Administration's right-of-way acquisition activities under the Federal-aid highway program in the States of South Carolina and Tennessee.

We have issued numerous reports to the Congress in past years on deficiencies in appraisal, documentation, and review procedures for land acquisition in various States. Because previous reviews showed significant weaknesses in right-of-way practices and procedures in South Carolina and Tennessee, we undertook a follow-up review in these States to assess the adequacy of corrective actions taken, or preventive controls implemented, by the States and by the Administration.

Our follow-up review showed that many of the problems and deficiencies previously brought to the attention of Federal highway officials by our Office had not been corrected.

In South Carolina, we found that land value appraisal reports being submitted to Federal highway officials for approval still were largely incomplete or otherwise inadequate. The Federal share of the cost of lands acquired by the State for highway purposes during fiscal years 1965 and 1966 was about \$3.4 million.

In Tennessee, we also found that many of the deficiencies shown in our prior report had not been corrected. As we found in South Carolina, most of the land value appraisal reports which we reviewed were incomplete or inadequate and, in our opinion, did not provide a reasonable basis for Federal participation.

We believe that there is a continuing need for (1) improvement in appraisal and appraisal review activities, (2) positive action by the

Administration to provide for States' compliance with Federal policy, and (3) a clear definition by the Administration of appraisal documentation requirements.

In our opinion, the continued acceptance of inadequately supported appraisal reports has been caused by Federal highway officials not requiring States to closely adhere to Federal policies and procedures regarding the adequacy of appraisal support and documentation and not formally advising the States that Federal participation in the cost of acquired lands would be withheld if appraisals were not properly supported.

In commenting on our findings, the Federal Highway Administration informed us that it was aware of the need for further improvements in right-of-way acquisition procedures but disagreed with us on the seriousness of the matter.

We are recommending that the Secretary of Transportation request the Federal Highway Administrator to revise the Administration's appraisal guidelines to clearly set forth those elements that appraisal reports must have for such reports to serve as a basis for Federal participation in the cost of land acquisitions.

We are recommending also that Federal highway officials be directed to closely survey State right-of-way practices and procedures and withhold Federal participation in land acquisition costs if appropriate State corrective actions are not taken.

We are reporting this matter to the Congress to point out the need for strengthening the administration of the Federal Highway Administration's right-of-way acquisition program. We are particularly concerned because the serious problems discussed in this report still exist--10 years after the beginning of the accelerated interstate highway program.

B-118653

Copies of this report are being sent to the Director, Bureau of the Budget; the Secretary of Transportation; and the Federal Highway Administrator.

A handwritten signature in cursive script, reading "James B. Axtell". The signature is written in dark ink on a white background.

Comptroller General  
of the United States

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REPORT ON  
NEED FOR IMPROVED CONTROLS  
OVER APPRAISAL REPORTS  
SUPPORTING PRICES PAID TO ACQUIRE LAND  
FOR HIGHWAYS IN THE STATES OF  
SOUTH CAROLINA AND TENNESSEE  
FEDERAL HIGHWAY ADMINISTRATION  
DEPARTMENT OF TRANSPORTATION

INTRODUCTION

The General Accounting Office has made a follow-up review of selected right-of-way acquisition activities in the States of South Carolina and Tennessee under the Federal-aid highway program as administered by the Bureau of Public Roads, an agency within the Federal Highway Administration, Department of Transportation.

Our review, made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (21 U.S.C. 67), was directed primarily toward evaluating the adequacy of appraisal reports obtained by the States, and it included an evaluation of action taken by the Bureau to correct right-of-way deficiencies discussed in two prior reports to the Congress by our Office. These reports were titled "Review of Selected Activities of the Federal-Aid Highway Program in the State of South Carolina" (B-118653, April 24, 1962) and "Review of Selected Activities of the Federal-Aid Highway Program in the State of Tennessee" (B-118653, February 14, 1962).

Our review was limited to the appraisal and appraisal review phases of the right-of-way acquisition program for the Interstate System. We did not evaluate the Bureau's and States' administration of other phases of the right-of-way program. Our work was performed at the Administration's

Region 3 and South Carolina and Tennessee division offices,  
and at the offices of the South Carolina and Tennessee State  
highway departments.



## BACKGROUND

The Bureau of Public Roads, an agency of the Federal Highway Administration, Department of Transportation, is the principal agency of the Federal Government in matters relating to highways. The management of the Bureau is vested in the Director of Public Roads. Within the Department, the Bureau is under the overall jurisdiction of the Federal Highway Administrator who is appointed by the President by and with the consent of the Senate. A listing of the officials of the Federal Government responsible for the administration of the activities discussed in this report is shown as appendix I.

The administration of this program is carried out principally by a field organization comprising division offices in each State, the District of Columbia, and Puerto Rico. The division offices are grouped regionally under the supervision of regional offices; the division offices in South Carolina and Tennessee are within Region 3, with headquarters at Atlanta, Georgia.

Under the Federal-aid highway program, Federal funds are made available to all the States, to Puerto Rico, and to the District of Columbia for the construction and improvement of highways on designated Federal-aid highway systems. These systems include the interstate, primary, and secondary highway systems and the extension of the latter two systems within urban areas. The Federal share of the cost of interstate projects is 90 percent plus an additional allowance not to exceed 5 percent in those States having large areas of public (federally owned) lands. The Federal share of the total cost of primary, secondary, and urban highway projects is 50 percent plus an additional allowance in those States having large areas of public land.

A significant part of the Federal-aid highway program involves the acquisition of land for right-of-way purposes. Work completed on the Interstate System since July 1, 1956, has cost about \$20.5 billion, of which about \$3.8 billion was for engineering and right-of-way acquisition. As of June 30, 1967, work estimated to cost about \$9.3 billion

was under way or authorized, including about \$3.2 billion for engineering and right-of-way acquisition.

Under Federal laws and regulations, Federal participation is permitted in right-of-way costs incurred by the States for Federal-aid highway projects. The Bureau carries out its responsibilities in this area through an arrangement whereby the States initiate and execute planned programs for the acquisition of right-of-way, while the Bureau controls the activity by reviewing and approving the actions of the States. In this regard, the Bureau has issued numerous policy statements, instructional memorandums, and other material relating to appraisals, appraisal reviews, and other phases of the right-of-way acquisition program for the guidance of both Bureau and State personnel.

The Bureau's basic policy relating to Federal participation in right-of-way costs is set forth in Policy and Procedure Memorandum (PPM) 21-4.1, issued December 30, 1960, which contains guidelines for the preparation of an appraisal report. Existing Bureau issuances relating to right-of-way procedures have been consolidated into a new series of PPMs, effective July 1, 1967.

The Bureau's responsibility for reviewing the States' right-of-way organization, policies, and procedures and for determining that policies and procedures actually applied by the States meet Bureau requirements, rests primarily with Bureau division office right-of-way personnel. Division personnel, with the advice and assistance of the regional office right-of-way staff, carry out this responsibility, in part, through a systematic and regular spot check of States' appraisals and appraisal practices.

A basic Bureau requirement is that values used as the basis for negotiations and settlements with property owners be supported by appraisal reports which (1) contain adequate documentation to explain the basis on which the appraiser estimated the fair market value of property to be acquired and the damages to any remaining property, (2) set forth the approaches and reasoning used by the appraiser in reaching his value determinations, and (3) have been reviewed and approved by a qualified State reviewing appraiser

as representing the fair market value of the right-of-way taking.

The Bureau requires also that the States keep well-documented records of all negotiations with property owners and that any basis of settlement which differs materially from the approved amount be justified and documented in accordance with sound appraisal concepts.

In 1962 the Bureau stated in a Circular Memorandum that there was an internal need for strong, centralized leadership to develop a sound Bureau right-of-way organization and to provide assistance to the various States to develop efficient organization and procedures. One of the techniques adopted by the Bureau was the right-of-way inspection-in-depth review to ensure that acceptance and approval actions by the Bureau did not become perfunctory.

The Circular Memorandum to regional and division engineers dated September 24, 1962, provided methods and techniques for sampling each phase of a State's right-of-way operations. The inspection-in-depth concept is supplemental to the existing routine reviews by the division right-of-way personnel and, in our opinion, would have, if properly implemented, provided the facts necessary to evaluate State operations including the need for corrective action.

We have issued numerous reports to the Congress in past years on deficiencies in appraisal, documentation, and review procedures in various States. Because our reviews showed continued significant weaknesses in the States' right-of-way practices and procedures, we undertook a follow-up review in two of these States to determine the nature and extent of action taken by the Bureau to correct deficiencies previously brought to its attention and to evaluate the Bureau's effectiveness in assisting States to develop right-of-way organizations which employ sound procedures and effective controls over their operations.

NEED FOR IMPROVEMENT IN BUREAU ADMINISTRATION

OF RIGHT-OF-WAY ACQUISITION ACTIVITIES

Our follow-up review of selected right-of-way acquisition activities in the States of South Carolina and Tennessee showed that many of the problems and weaknesses reported to the Congress by our Office in 1962 still exist and, in our opinion, indicate a continuing need for more effective remedial action by the Bureau. The Bureau has continued to approve appraisal reports that, in our opinion, were either incomplete or inadequate to support the appraisal valuations that were being used as the basis for the States' settlements with property owners and for Federal participation in the cost of such settlements.

We believe that the Bureau's continued acceptance of inadequately supported appraisal reports has been caused by the Bureau's not (1) requiring States to adhere to Bureau policies and procedures regarding the adequacy of appraisal support and documentation and (2) formally advising the States, in instances where appraisal deficiencies were noted, that Federal participation in the costs of acquired lands would be withheld if the appraisals were not properly supported.

We believe that another factor contributing to the continuing problem of incomplete and inadequately supported appraisal reports is a lack of specific criteria as to what is required in the way of appraisal documentation for the cost of land acquired to be eligible for Federal participation.

The Bureau's basic policy memorandum relating to appraisals and appraisal review states that appraisal reports shall set forth all items described in an attachment labeled "Guidelines for the Preparation of an Appraisal for Right-of-Way Purposes." These guidelines enumerate general, rather than specific, appraisal elements considered essential to an adequately supported opinion of value without clearly indicating whether such elements are required for an appraisal to be acceptable for Federal participation.

With regard to the application of the guidelines, we have been advised by the Director, Office of Right-of-Way

and Location, that the Bureau has not considered them to be firm requirements but has considered them to be something more than mere guidelines. We noted during our review, as discussed in subsequent sections of this report, certain differences of opinion between the various Bureau right-of-way and audit groups as to whether the application of the guidelines was mandatory, a matter which we believe has resulted in an inconsistent application of Bureau policy.

Our findings in each of the States are discussed in detail in the following sections of this report.

### SOUTH CAROLINA

The State of South Carolina has been allocated about 680 miles of the 41,000-mile Interstate System authorized by the United States Code (23 U.S.C. 103(d)). During fiscal years 1965 and 1966, the State acquired approximately 600 parcels of land for right-of-way purposes at a cost of about \$3.8 million, of which the Federal share was about \$3.4 million.

In 1962 we reported to the Congress that South Carolina's administrative policies, procedures, and practices, relative to the acquisition of right-of-way for Federal-aid highways, had been defective in many important aspects for a number of years. We reported that effective remedial action had not been taken by the Bureau and that many reimbursements had been made by the Bureau to the State for right-of-way costs which were not adequately supported. Some of the weaknesses shown in our report were (1) lack of adequate support and documentation of appraisals, (2) lack of independence in the preparation of appraisal reports, (3) appraisal and negotiation work performed by the same persons, and (4) inadequate documentation of Bureau reviews of State right-of-way activities.

Our follow-up review showed certain problem areas which indicated to us the continued existence of certain deficiencies set forth in our 1962 report. These problem areas concern the need for (1) improvement in documentation supporting appraisal reports, (2) better documentation of determinations by State reviewing appraisers, (3) positive

action to provide compliance with Bureau policy, and  
(4) clearly defined appraisal documentation requirements.

Our follow-up review included an examination of 44 appraisal reports covering 37 parcels acquired by the State during 1965 and 1966 on six interstate projects involving rural, residential, commercial, and industrial properties. Although the State acquired about 600 parcels during this period, most of the takings were rural in nature and involved low dollar values. Therefore, our selection was necessarily limited, in large part, to this type of property.

In addition, during our review we noted certain differences of opinion between division auditors and right-of-way personnel concerning the significance of certain appraisal deficiencies found by the division auditors. In order to examine into the extent of this problem, we expanded our review to include certain appraisals which had previously been reviewed by both groups.

#### Need for improvements in appraisal reports

Of the 44 appraisal reports examined by us, we found that the supporting data for 40 reports pertaining to properties valued at about \$260,000 were either incomplete or inadequate in varying degrees with respect to the valuation of the land or improvements. In our opinion, the appraisal reports did not provide a reasonable basis for determining the proper amount of Federal participation in the costs of acquired properties.

Of the 40 appraisal reports, the majority were incomplete or inadequate in one or more of the following respects: (1) selection and adjustment of comparable sales, (2) after values and damages assigned to remainder properties, and (3) cost factors used in the cost approach.

#### Selection and adjustment of comparable sales

The market approach, where such approach can be used, is generally considered by the appraisal profession to be the most acceptable indicator of fair market value because it is based on the principle that a prudent man will not pay more to buy or rent a given property than it will cost him

to buy or rent a comparable (substitute) property. Estimates of values arrived at by the use of the market data approach are based generally on sales prices of similar properties which are considered comparable to, and which are in the same neighborhood as, the property being appraised.

Bureau policy provides the following guidelines for documentation of market data.

"List or make reference to a list of comparable sales data in support of the value estimates, stating date of sales, names of parties to the sale, purchases, location, total area and type of improvements, highest utility, consideration paid, degree of comparability with the subject property being appraised, either percentagewise or in dollar amounts, plus or minus." (Underscoring supplied.)

Our examination of the 44 appraisal reports showed 27 reports that, in our opinion, were not supported by data that adequately substantiated the degree of comparability between the respective properties and did not sufficiently explain the correlation of the respective values. Furthermore, the selection of comparable sales seemed to us open to question in those instances where extremely large tracts were used as comparables in arriving at values for small parcels and vice versa.

After values and damages assigned  
to remainder properties

In cases where only a portion of an owner's property is required for highway right-of-way, the acquisition cost may consist of two elements, the fair market value of the property acquired and damaged value (damages), if any, to the remaining property. This type of acquisition (partial taking) generally requires a "before and after" method of valuation to separately determine the fair market value of a property as it existed before the proposed acquisition and the fair market value of that part of the property that would remain after the taking. The difference between the value of the total property before the taking and the value

of the part of the property that would remain after the taking represents the fair market value of the taking.

In using the before-and-after method of appraisal, the Bureau's guidelines state that the difference between the two estimates of value should be analyzed and tabulated to show the value allocated to the portion taken and the damages to the remainder. The Bureau's guidelines state also that the fair market value determined for the portion of a property not taken (after value), which in essence determines the amount of damages, should be arrived at and supported by the use of one or more of several prescribed methods, such as (1) sales of comparable properties for which there have been takings for like usage, (2) sales of properties comparable to the remainder, and (3) land economic studies of previously acquired partial takings.

Our review showed that, of the 44 appraisal reports examined by us, 16 involved damages to remainder lands and that generally the appraisals did not adequately substantiate the after values in that the documentation was insufficient to allow an evaluation of the reasonableness of the fair market value determined for the remainder property. In all instances, the after values were based on the appraiser's opinion that the value of the remainder property was decreased by a certain portion of the "before value." In our opinion, this type of support is lacking in substantiation and precludes a reviewer from determining the reasonableness of the appraised values.

#### Cost factors used in cost approach

In the cost approach, the current cost of replacing the improvements, less depreciation to reflect the condition of the original improvements, is added to the fair market value of the unimproved land. This approach is most often used to value special-use properties, such as churches, schools, and special-purpose facilities which are not ordinarily bought and sold in the market.

The cost approach is generally considered by appraisers to represent the upper limit of fair market value because it



is arrived at by adding together the values contributed by the land and the improvements thereon. It is generally recognized in the appraisal profession that, although every effort is made to be certain that the estimated value contributed by land is actually the fair market value of that land and every care is taken to make certain that the value finally estimated to be contributed by the improvement is the amount by which it enhances the fair market value of the land, making these estimates with complete accuracy is extremely difficult.

For this reason, acceptable appraisal techniques require that the data and indicated value estimates made in the three appraisal approaches (market, cost, and income) be correlated as the last major step in the appraisal process. The income approach, not previously discussed in this report, is an appraisal technique in which the anticipated net income is processed to indicate the capital amount of the investment which produces the income. Extreme care must be used in estimating the net income and in using the proper rate to capitalize the net income to arrive at the value indicated by this approach. According to appraisal authorities, the use of the cost approach without adequate support or without proper correlation to the other appraisal approaches raises doubts as to the reasonableness of the values determined.

We noted seven instances where the appraiser relied on the cost approach rather than the market approach in determining values for properties which were not of a special-purpose nature. In addition, in cases where this approach was used, the appraiser generally did not document the specific source or authenticity of the cost used or explain sufficiently the depreciation rates allowed.

In commenting on these cases, the State acknowledged that four of the appraisals were inadequately supported and would not be acceptable under current practices. With regard to the remainder, the State advised the division engineer that, although the documentation of unit cost and depreciation left much to be desired, it believed that the values determined were reasonable. The Bureau, after reexamining the questioned appraisals, advised the State that

one appraisal contained items which were not eligible for Federal participation and another required additional supporting data before the tract would be eligible for Federal reimbursement.

Determinations of State reviewing appraisers  
should be better documented

Certain employees in the South Carolina State Highway Department are authorized, as reviewing appraisers, to determine the fair market value of real property, which amount is to govern negotiations and settlements with property owners. In making such determinations, the reviewing appraiser may consider all competent information of value that is available to him, including appraisal reports secured by the State and the property owner. In this regard, the Bureau's procedures require that:

"If the reviewing appraiser determines that the fair market value differs substantially from any of the State's appraisals he should include in the State's files a signed statement setting forth his determination of fair market value and an explanation of the basis therefor. This supported, and documented statement will be accepted as justification for payment of the Federal share of the settlement which does not differ substantially from the value set forth in such statement." (Underscoring supplied.)

We noted eight cases where the reviewing appraiser substantially increased the appraised values of properties without, in our opinion, providing adequate documentation to support the increased values. In several instances, property values established by the reviewing appraiser to govern negotiations and settlement with the property owners were subsequently voided by him after negotiations had been initiated. Subsequent settlements by the State were based on revised, different, or new appraisals in substantially increased amounts.

For example, in one case a State reviewing appraiser increased the appraised value of a property that previously had been approved by another review appraiser at \$10,800 to \$17,300 on the basis of a State-acquired second appraisal which was received after an offer of \$10,800 had been made to and rejected by the property owner. Although a minor change in the construction plans resulted in a taking less

than originally intended, the reviewing appraiser approved the second appraisal in the amount of \$17,300, or an increase of \$6,500, without an explanation as to why the second appraisal had been requested or why it was any more reliable than the first. The State's records did not indicate that the second appraisal was based on any additional facts or information that would account for the substantial increase in value.

Subsequently, the State's right-of-way engineer, who has primary responsibility for right-of-way activities, increased the approved fair market value of \$17,300 by an additional \$2,200 without documenting the reasons for this increase. As a result, the final approved fair market value of the property was \$8,700 higher than the original approved appraised value which had been initially offered to and rejected by the property owner.

In commenting on this matter, the State stated that the original appraiser was tied up on an urban renewal project when the revised plans were ready and that it was necessary to award a contract for the second appraisal to another appraiser. The State stated also that the reviewing appraiser believed that the second appraisal was better documented and that it better represented the estimated value of the property. The State offered no comment in support of the additional increase by the right-of-way engineer.

The Bureau, after examining the questioned appraisal for this property, advised the State on May 4, 1967, that, although the administrative settlement in the amount of \$19,500 was authorized on the premise that it was substantially in accordance with the approved value, the substantiality of the increase by the right-of-way engineer was questionable and should be further supported for Federal reimbursement.

Positive action needed to provide  
compliance with bureau policy

Bureau records show that since 1962 there has been considerable improvement in the administration of all phases of the State's right-of-way acquisition activities including

appraisals, condemnations, negotiations, and property management. Bureau records show that, partly as a result of its encouragement, the State's right-of-way section has made definite improvements in the right-of-way procedures and staffing. Specifically, a chief appraiser has been appointed, additional review appraisers have been added to the staff, and appraisal training has been provided for others.

On the basis of our review, however, we believe that a need for improvement still exists in the appraisal and appraisal review phases of the State's right-of-way program. We believe that the desired improvements have not been achieved in these areas because the Bureau has not taken the positive action needed to obtain compliance with the prescribed Bureau policies and procedures relating to the adequacy of appraisal reports. In this connection, the Bureau's division office apparently is reluctant to formally advise the State, in those cases where appraisal weaknesses were noted, that Federal participation in the costs of acquired lands would be withheld if the appraisals were not properly supported.

In November 1964, the Bureau's Washington Office of Audits and Investigations (OA&I) completed a review of the Bureau's division office's supervision of the State's appraisal and appraisal review phases of right-of-way activities. As a result of the review, OA&I issued a report to the Federal Highway Administrator pointing out, among other things, that:

1. The effectiveness of the division spot checks of appraisals had diminished because the reports on the results of the spot checks were incomplete, inconclusive, and untimely.
2. The division office had not been completely successful in having the State obtain fully documented appraisals.

The findings contained in the OA&I report indicated the continued existence of some of the deficiencies reported by our Office in 1962. (See p.7.)

To improve the effectiveness of the division office spot-check appraisal review, the division engineer directed that reports on such reviews be brought to his attention on a timely basis and that they show: (1) whether value estimates are considered reasonable, (2) whether supporting documentation is adequate, (3) specifics of deficiencies noted, and (4) actions taken or recommended. In addition, the division engineer advised OA&I that the State would be periodically informed, in writing, of major appraisal deficiencies found on spot-check reviews and that, where division reviews revealed unsupported appraisals, Federal funds would be withheld unless corrective action was taken.

Our review of reports prepared by the division's right-of-way staff on the results of the spot-check reviews of appraisals indicate to us that, since the OA&I's review in 1964, some improvement has been made relative to providing better documentation in that the more recent reports that we examined identified specific inadequacies in the appraisals and contained recommendations for corrective action by the State.

In many instances, however, although the division right-of-way officer noted what appeared to be significant weaknesses in support and documentation, he generally concluded that the appraisals were considered to provide an adequate basis for Federal participation in the acquisition costs of the properties. For example, the right-of-way officer reviewed appraisals on four tracts on one project and noted:

"These sales were not generally analyzed in the proper manner. There is no indication that the sales used by Mr. \*\*\* have been verified.

"Neither the size of the building nor the crop allotments were shown on most of these appraisal reports.

"Some of the land prices have very little or no support. It is my opinion that the after value is not properly supported in the appraisals."  
(Underscoring supplied.)

In spite of the recognized weaknesses in the appraisals, the right-of-way officer concluded:

"It is my opinion, after considering the comparable sales in all the appraisals, that the fair market value approved by the Reviewing Appraiser is reasonable."

We could find no evidence that the State was formally advised of the findings of the right-of-way officer. In the absence of such communications, a question arises as to whether the State will continue to accept appraisals containing the same types of shortcomings.

Our review of Bureau project and correspondence files showed that, during the period December 30, 1964, to July 1, 1966, the right-of-way spot checks covered 71 appraisals on 10 interstate projects. Although reservations concerning the adequacy of the State's appraisals were continually manifested by these reviews, we noted that, during this period, the State was formally advised of only three instances of appraisal deficiencies revealed by the spot-check reviews. In our opinion, this lack of formal communication appears significant in view of instructions from the regional engineer to all division engineers dated June 30, 1965, which required:

"(1) Where the spot-check appraisal reviews reveal instances of deficient and non-acceptable support of State value estimates, the State should be advised formally that Federal participation in the cost of such appraised parcels will be withheld until corrective action is taken to bring the appraisal to an acceptable support condition.

"(2) Where spot-check review reveals a pattern of minor deficiencies or lack of optimum support in elements of the appraisal, the Division Office should periodically inform the State, in writing, of such weaknesses and follow through to upgrade the appraisal toward optimum clarity and support in all respects."

Further, on the basis of our review of available Bureau records, it appears to us that the lack of supporting appraisal documentation, as shown by the division's spot-check reviews, had not resulted in the denial of Federal participation in the State's claims for Federal reimbursement.

An inspection-in-depth review performed by division office personnel in 1965 indicated various weaknesses in appraisal reports relating to the adjustment of comparable sales, support for capitalization rates, and documentation of depreciation factors. Some of the recommendations included in the inspection-in-depth report were:

1. All fee appraisers employed by the State should be furnished with information outlining the general requirements set forth in the Bureau's appraisal guidelines.
2. All comparable sales should be described and verified.
3. Comparable sales should be adjusted in percentage or dollar amounts to arrive at the value of the property being appraised.
4. Continuing effort should be made to have appraisers support items, such as capitalization rates, reproduction cost factors, depreciation, and value of remainder properties.

In spite of the weaknesses noted and the recommendations for improvement, the review team concluded that the appraisals generally followed the Bureau's "Guidelines for the Preparation of Right-of-Way Appraisals." The inspection-in-depth report did not indicate the degree or significance of the deficiencies noted. However, the implication of such a conclusion to us appears to be that, although generally the State's claims for the cost of properties acquired would be properly eligible for Federal reimbursement, some of the appraisals were not properly documented in accordance with Bureau guidelines and, therefore, some of the claims probably should not have been paid



without the submission of additional supporting documentation by the State. In our opinion, the Bureau has the responsibility for determining that Federal participation is justified in all, not a part, of the State's claims.

In view of the continuing problems associated with the State's appraisal practices since our 1962 report--as evidenced by the questions raised by the Bureau division auditors, the internal audit review in 1964, the various Bureau reviews since that time, and our follow-up review--we believe that the actions taken by the division office to obtain the State's compliance with prescribed Bureau policies and procedures have not been adequate. In our opinion, there has been, and continues to be, a definite need for more positive and timely action by the Bureau to seek improvements in the State's appraisal practices and procedures by formally advising the State, in instances where appraisal deficiencies are noted, that Federal participation in the cost of acquired lands will be withheld until appropriate corrective action is taken.

In this regard, we believe that one of the factors contributing to this absence of positive action has been a lack of specific criteria as to what is required in the way of appraisal documentation for the cost of land acquired to be eligible for Federal participation. This lack of clearly defined requirements has resulted in an apparent divergence of opinion, as discussed below, among Bureau personnel as to what constitutes an adequately supported appraisal.

Need to clearly define appraisal documentation requirements

The report of the OA&I on the results of its 1964 review of the appraisal and appraisal review phases of right-of-way activities in South Carolina also criticized the audit program used by the division auditors for not requiring that a specific determination be made as to the adequacy of appraisal documentation although required by Bureau audit policy. The report concluded that the division auditors had not been effective in disclosing weaknesses in the documentation of appraisals. In this regard, the report noted:

"The team's review of reported audit exceptions for the period July 1963 through September 1964 showed that no exceptions were made because of inadequate appraisal documentation. This is considered significant in view of the previous findings in this report which show continuing weaknesses in the supporting documentation of appraisals." (Underscoring supplied.)

As a result of the audit report, the division auditors broadened the scope of their review to include an examination of appraisal documentation. Subsequently, during the period October 1965 through March 1966, three audit reports were issued to the division engineer by the division auditors. The auditors questioned about \$637,000 of State claims because of lack of adequate documentation.

Upon receiving the first report, dated October 29, 1965, which questioned claims of about \$257,000 because of lack of adequate documentation, the division engineer requested the division right-of-way officer to review the appraisals in question and advise him of the adequacy of each. On January 20, 1966, the right-of-way officer recommended that Federal participation in the amount of about \$75,000 of the State's claims, which involved inadequate support for after values and damages, be withheld pending additional explanation and support by the State. He stated the opinion that the information contained in the remainder of the appraisals questioned by the division auditors was adequate to support a reasonable determination of value. With regard to this matter, he commented:

"All of the appraisals examined in this inspection or on any other occasion contain weaknesses in some degree if the application of Attachment 1 of PPM-21-4.1, 'Guidelines for the Preparation of an Appraisal for Right-of-Way Purposes', is to be interpreted in its literal sense as requirements. It has been our view that these are 'guidelines' and their application is important, however, we have received no instructions that appraisals are ineligible for Federal participation if they contain less than all desirable information."

The division engineer took no action to implement the right-of-way officer's recommendation until several months later when the division auditors issued two additional reports questioning \$380,000 in State claims.

The second audit report, dated February 11, 1966, questioned additional State claims of about \$177,000 because of lack of documentation. On March 23, 1966, the division engineer again requested the division right-of-way officer to review the appraisals in question and advise him of his recommendations. In the meantime, the third audit report had been issued on March 21, 1966, and it questioned further State claims of \$202,640 because of lack of adequate documentation. Finally, in order to resolve this problem, the division engineer requested that a review team, including regional and division office right-of-way personnel, examine the appraisal reports relating to the claims audited to determine the significance of the deficiencies reported and the validity of the value determinations.

In addition to reviewing the appraisal reports questioned by the division auditors, the team reviewed many appraisal reports which had not been questioned or reviewed by the auditors. The regional right-of-way officer advised the Regional Federal Highway Administrator on May 3, 1966, that the review team's findings differed substantially from those of the auditors in that the team found that only a small percentage of the appraisals examined contained significant weaknesses relating to documentation of the approaches to value. Also, the regional right-of-way officer concluded

that, although the State's appraisals did not, in some instances, contain the desired degree of support and documentation, the team found few examples where, in its opinion, such lack of desired documentation compromised the State's value conclusions.

In spite of the views expressed by the regional right-of-way officer, the division engineer, on the basis of the review team's findings, advised the State Highway Engineer in May 1966 that Federal participation in State claims totaling about \$203,000 was being suspended pending further review. Later, on the basis of further review of the suspended cases by regional office personnel, the division engineer advised the State, in August 1966, that all the items previously suspended could be reclaimed except for about \$88,000 of claims which were considered as not being adequately supported to be eligible for Federal participation.

In addition to the difference of opinion between the auditors and the right-of-way personnel, there appeared to be significant differences of opinion among right-of-way personnel themselves regarding what constitutes adequate appraisal documentation and support for Federal participation. Our examination into this matter showed that many of the appraisals found to be unacceptable by the division right-of-way officer were subsequently accepted by the review team. In addition, many of the appraisals found to be unacceptable by the review team for which payment had been suspended by the division engineer were ultimately accepted by the division engineer for Federal participation after further review by regional office personnel.

We examined several of the appraisals which had been questioned by the auditors and which were subsequently accepted for Federal participation after being examined by the review team. Our examination of the appraisals and the related documents prepared by the review team raised serious questions as to the reasonableness of the review team's conclusions.

For example, we noted that for one project the review team accepted five appraisals which had been questioned by the auditors although the work sheets prepared by the review team showed that each of the appraisals had been rated

by the team as inadequate with regard to such important elements as (1) verification of comparable sales, (2) adjustment of comparable sales, (3) consideration of benefits, (4) support for damages, (5) description of depreciation, and (6) support for cost data.

In view of the fact that both the auditors and the review team recognized weaknesses in the appraisal reports, it is not clear to us why the Bureau accepted them as a basis for Federal participation. In our opinion, the appraisals examined were inadequate with regard to the important elements contained in the Bureau's guidelines and generally accepted appraisal practices.

In commenting to the regional engineer on the results of the review team's examination, the regional right-of-way officer, with regard to the emphasis placed on the Bureau's appraisal guidelines by the division auditors, stated that appraisal personnel regard the guidelines as "ideals" but that full implementation was not a requisite for Federal participation. He stated also, and in this respect we agree, that it was essential that the auditor and the right-of-way personnel use the same criteria in the review of appraisal reports.

We believe that this divergence of opinion as to the significance of the appraisal guidelines is indicative of a need for a Bureau policy more clearly defining the appraisal documentation requirements which must be met to permit Federal participation in the costs of State property acquisitions. In our opinion, a definition of those requirements, which should be consistent with generally accepted appraisal practices, should provide Bureau and State personnel, as well as the State's fee appraisers, with more meaningful criteria for the preparation and evaluation of appraisal reports used as a basis for Federal reimbursement.

## TENNESSEE

The State of Tennessee has been allocated about 1,049 miles of the authorized 41,000-mile Interstate System. As of June 30, 1967, Tennessee had engineering and right-of-way projects under way or authorized, which were estimated to cost about \$161 million. Our review included an examination of 45 appraisal reports and records for parcels of property acquired during calendar years 1964 and 1965 at a cost of about \$991,000 for six Interstate System projects.

In 1962 we reported to the Congress that certain inadequacies existed in Tennessee's administrative policies, procedures, and practices relative to the acquisition of right-of-way for Federal-aid highways, which inadequacies evidenced a lack of control by both the State and the Bureau over such acquisition. Some of the weaknesses discussed in our report were (1) inadequate appraisal reports, (2) lack of independence in the preparation of appraisal reports, (3) need for guidelines for appraiser qualifications, and (4) insufficient review of acquisitions of right-of-way by political subdivisions.

Although most of these deficiencies have been corrected, we believe that, on the basis of our follow-up review, there is a need for (1) significant improvements in the State's appraisal reports and (2) positive action to provide compliance with Bureau policy.

### Need for improvements in appraisal reports

We found that, of the 45 appraisal reports examined by us, 27 reports, pertaining to properties valued at about \$560,000, were, in our opinion, questionable indicators of fair market value because of either incomplete or inadequate documentation. In general, the appraisal reports contained the same weaknesses as those noted in South Carolina and discussed in the preceding sections of this report. Two major types of deficiencies which were prevalent throughout and which to us raised serious questions as to the reasonableness of the appraisal reports as a basis for Federal participation concerned the (1) correlation of

comparable sales to the subject properties and (2) support for after values where damages to remainder properties were involved.

#### Correlation of comparable sales

As previously discussed (see p. 9 ), the Bureau requires an appraiser to support his estimates of market value by adjusting sales data for comparable properties by percentage or dollar amounts to show the degree of comparability with the property being appraised. In 23 of the appraisals that we examined, the comparable property sales used were merely shown as being superior or inferior to the property being appraised, without any indication of the degree of comparability as to time of sale, location, size, topography, or improvements.

It is a generally accepted appraisal practice that, in determining the reasonableness of an appraised value, the appraiser should cite each of the actual points of similarity and dissimilarity between the property being appraised and each comparable property sale used to demonstrate why the subject property has a fair market value that is higher, lower, or the same as the price at which the comparable property was sold.

#### Support for after values

Our review showed that, of the 27 appraisal reports, 17 involved damages to remainder properties and, in our opinion, were questionable because of either incomplete or inadequate documentation for the amounts of the after values. Because documentation relating to comparable property sales or other types of supporting justification suggested by the appraisal guidelines was not provided in the appraisal reports, we were unable to ascertain the reasonableness of the bases for determining the fair market values of the remainder properties and the damages resulting from the takings.

Postive action needed to provide  
compliance with bureau policy

Prior to the initiation of our follow-up review, we conducted a brief survey at the division office in March 1965 to examine into the corrective action taken by the Bureau since 1962. During our 1965 examination, we noted that few appraisals had been questioned by division auditors because of lack of adequate documentation. We brought this matter to the attention of the division engineer.

During our follow-up review, which was initiated as a result of our brief survey in 1965, we noted a significant increase in the amount of exceptions taken because of inadequate documentation and other appraisal deficiencies. Our review showed that only about \$13,000 of claims for the interstate right-of-way program had been questioned by the division auditors during the period September 1963 to February 1965. However, during the succeeding 10-month period, March 1965 to December 1965, division auditors questioned about \$988,000 in right-of-way claims because of lack of adequate documentation and other appraisal deficiencies.

We were informed by the division engineer that he was aware of the deficiencies noted during our follow-up review and had held numerous discussions with State officials to obtain more adequate documentation in support of the appraisals. In view of the Bureau's awareness of the continuing nature of this problem, we believe that the Bureau should have taken a more forceful approach to seek compliance with Bureau policy by formally advising the State that Federal participation in the costs of acquired lands would be withheld if the appraisals are not properly supported.

During our review, a team from the Washington Office of Right-of-Way and Location, assisted by regional personnel, conducted a review of right-of-way acquisition activities of both the Tennessee State Highway Department and the Bureau's division office.



The review team noted that the appraisal reports examined were sometimes deficient in one or more areas. The team recommended that the State upgrade the quality of appraisal reports by encouraging its fee and staff appraisers to (1) include a sufficient narrative explanation in the appraisal reports to provide a comprehensive analysis of the appraiser's determination of value, (2) consider, where applicable, all three approaches to value, (3) select comparable property sales data which is most comparable to the property being appraised, and (4) continue efforts to support after values with actual sales of similar remainder properties.

In addition, the team noted that the State reviewing appraisers were approving some appraisals which were below acceptable appraisal standards and on occasion were approving values substantially different from the values expressed in appraisal reports, without satisfactory explanation for such approvals.

Although the review team generally found the same weaknesses and deficiencies in State appraisals and appraisal review procedures as those revealed by our review, the team concluded that the Bureau's division office was carrying out its responsibilities in a sound manner with good coverage and that proper action had been taken when divergence from sound procedures had been found. The reasonableness of such a conclusion appears to us somewhat questionable in view of the deficiencies noted by the review team and the recommendations made to the State for corrective action.

Although the review team did not indicate the extent or significance of the deficiencies noted, the Bureau's division office is responsible for (1) ensuring that State practices and procedures meet Bureau requirements and (2) taking the necessary action to ensure that the team's recommendations are properly implemented. We believe that, in order for management reviews of division office activities to be fully effective, positive and constructive recommendations, as a result of these reviews, should be directed toward specific requirements for administrative actions by the division engineer to achieve needed improvements.

## STATE AND AGENCY COMMENTS

We proposed that the Federal Highway Administrator (1) consider the need to revise Bureau policy to more clearly define the appraisal elements considered essential to an adequately supported opinion of value, (2) direct that division office personnel, as a prerequisite for Federal participation in right-of-way costs incurred by the States, take a more firm attitude in requiring State adherence to Bureau policies and procedures, and (3) direct that division engineers take positive administrative action to achieve improvements in all areas where weaknesses are noted by various organizational groups within the Bureau.

In commenting on our findings and proposals for corrective action, the Federal Highway Administration advised us that it would bring the matters discussed in this report to the attention of responsible Bureau officials. (See app. II.) Although the Administration expressed its awareness of the need for further improvement in right-of-way activities, it disagreed, in general, with our conclusions regarding the seriousness of the situation and stated that Federal participation was being withheld where professional judgment indicated that such action was warranted.

The State of Tennessee, in commenting to the division engineer on our draft report, stated that there has been a progressive development of the appraisal reports since 1955 and concluded that its current appraisals have overcome the conditions commented on in our report. (See app. III.)

The State of South Carolina has advised the division engineer that its reviewing appraisers are more competent to judge the adequacy of appraisal reports than are non-appraisers and has indicated that our conclusions are based on what it considers to be the erroneous assumption that the appraisal guidelines are requirements for all appraisal reports. The State contended that, although it did not believe that its appraisal reports were perfect, it did believe them to be constantly improving and to

represent market values. The State concluded that, although it subscribed to the principles outlined in the guidelines, it did not believe that the cost in time and money would be justified in demanding demonstration-type reports as a standard. (See app. IV.)

Also, the State submitted an attachment commenting on the individual appraisals questioned during our review. The attachment is not included as an appendix to this report because it deals primarily with justification for the values approved by the State rather than the substance of the appraisal reports supporting such values. In essence, the State generally recognized certain weaknesses in appraisal documentation but believed that the approved fair market values were reasonable on the basis of the judgment and experience of the review appraiser and other data available in State files. Our detailed evaluation of the information contained in the attachment did not show any additional data that would mitigate our views regarding the adequacy of appraisal documentation.

With regard to the guidelines, the Administration advised us that it had previously considered our proposal that the Bureau's policy be revised to more clearly define the appraisal elements considered essential to adequately supported opinions of value and had determined that such a revision would not be practicable nor desirable because the appraisal elements that may be essential vary considerably depending upon such factors as the type, location, and highest and best use of the property.

In commenting on the appraisals questioned during our review the Administration stated:

"Admittedly, we cannot accept some of these reports and would not have accepted them had they been selected as part of our sampling procedures. However, we do disagree with the GAO conclusion regarding many of the appraisals."

The Administration expressed the belief that the difference of opinion regarding the adequacy of appraisals may stem from differences in the application of Bureau appraisal guidelines between auditors and qualified appraisers and

that auditors must of necessity apply the written guidelines quite rigidly and tend to question any and all deviations. The Administration stated the opinion that division right-of-way officers had exercised proper professional judgment in the application of appraisal guidelines.

Although the Administration did not indicate how many of the appraisals questioned by us it disagreed with or on what basis it disagreed, we noted that, subsequent to our review, each State was advised that a significant number of these appraisals were ineligible for Federal participation. After reexamining the appraisals for the 27 parcels that we had questioned during our review in the State of Tennessee, the division engineer advised the State on October 5, 1966, that additional documentation would be required for 17 of these parcels.

The division engineer in South Carolina, after reviewing the appraisals that we had questioned, advised the State in May 1967 that 13 of these parcels contained appraisal deficiencies and that additional supporting documentation would be required prior to Federal reimbursement. In addition, Bureau records showed that 7 of the 13 parcels in South Carolina, which were ultimately found to be ineligible pending additional supporting documentation, had been previously examined by the division right-of-way officer during his spot-check reviews.

We believe that the number of cases in which the Bureau agreed with our conclusions concerning the inadequacy of the appraisal reports indicates that our application of the guidelines was reasonable rather than rigid as indicated by the Administration. The appraisal reports for the parcels which we questioned involved either incomplete or inadequate supporting documentation. We believe that these appraisals were not prepared in accordance with a long-standing Bureau policy that appraisal reports used as a basis for Federal reimbursement be prepared in accordance with generally accepted appraisal practices.

As stated previously, we believe that the differences of opinion as to what constituted a properly supported appraisal report between Bureau auditors and right-of-way

personnel, as well as among the right-of-way personnel themselves, contributed to the problems in South Carolina. Furthermore, this situation evidences to us the particular desirability that the Bureau reexamine its views regarding the establishment of criteria defining the essential elements of an appraisal report that must be complied with by the States to justify Federal participation in the cost of property acquired.

We disagree with the Administration's conclusion that it would not be practicable to revise Bureau policy because the appraisal elements that may be essential vary considerably depending on such factors as the type, location, and highest and best use of the property.

Although the physical characteristics of properties may vary, we believe that there are certain basic principles, practices, and techniques which are generally recognized as essential to an adequately supported appraisal. We believe that this view is supported by the following comments from the American Association of State Highway Officials' publication "Acquisition for Right-of-Way" relating to the appraisal process.

"Making an appraisal is solving a problem. The solution requires interpretation, in terms of money, of the influences of economic, sociological, and political forces on a specific real property. Characteristics of real property differ widely. This does not mean, however, that there is wide variation in the orderly procedure for solving appraisal problems. The best experience in the appraisal field has crystallized into the appraisal process. This process is an orderly program by which the problem is defined, the work necessary to solve the problem is planned, and the data involved is acquired, classified, and interpreted into an estimate of value." (Underscoring supplied.)

The appraisal report is the written statement of the estimate of value of a property and should include an adequate description of the property as of a specified date

and should be supported by the presentation and analysis of relevant data. In private dealings, an informal estimate of property value may, at times, be sufficient but it is a particular and special responsibility of public agencies that the appraisals made for properties to be acquired be as technically correct and professionally sound as possible. Documentation of appraisals for Federal agencies is of paramount importance because the valuation of the properties is the basis for the expenditure of public funds.

### CONCLUSIONS

On the basis of our review, we concluded that the appraisal reports being obtained by the States of South Carolina and Tennessee at the time of our review generally did not contain certain basic data essential to an adequately supported opinion of value. We believe that, because of the continuing inadequacies in documentation, the appraisal reports did not provide a reasonable basis upon which the States' right-of-way costs could be considered eligible for Federal participation.

In May 1957 the Federal Highway Administrator emphasized to Bureau officials that, where a State supports a claim for Federal participation in right-of-way costs with inadequate appraisals, the Bureau should return the claim to the State and require that it be fully supported. On the basis of our review, we conclude that the Bureau should take this approach.

We are concerned that the deficiencies discussed in this report still exist at this late date--some 10 years after the initiation of the expanded interstate highway program. Although there has been improvement in certain aspects of the Bureau's administration of right-of-way activities in the States covered by our review, we believe that significant weaknesses still exist in the appraisal and appraisal review phases of the right-of-way acquisition program for the Interstate System and that there is a continuing need for more effective corrective action by the Bureau, particularly with regard to the establishment of more meaningful criteria for the evaluation of appraisals.

We believe that continued acceptance of inadequately supported appraisals by the Bureau does little to encourage the States to achieve improvements in right-of-way practices and procedures. Moreover, there appears to be a definite need for more positive and timely action by the Bureau in advising the States of weaknesses in right-of-way practices which affect the acceptability of appraisals as a basis for Federal participation in right-of-way acquisition costs.

Recommendations to the  
Secretary of Transportation

We recommend that the Secretary of Transportation request that the Federal Highway Administrator define, for the guidance of responsible State and Bureau officials, those appraisal elements which are to be considered as requirements for an appraisal to be adequately supported as a basis for Federal participation in the costs of properties acquired by the States.

We recommend also that the Secretary request the Administrator to direct Bureau officials to closely survey State right-of-way practices and procedures and to take a more positive approach in seeking compliance with Bureau requirements by formally advising the States, in instances where appraisal deficiencies are noted, that Federal participation in the costs of acquired lands will be withheld if appropriate corrective action is not taken.

APPENDIXES



OFFICIALS OF THE FEDERAL GOVERNMENT  
RESPONSIBLE FOR THE ADMINISTRATION OF  
THE FEDERAL-AID HIGHWAY PROGRAM  
DURING THE PERIOD COVERED BY OUR REVIEW

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF TRANSPORTATION (note a): Alan S. Boyd	Apr. 1967	Present
SECRETARY OF COMMERCE (note b): Alexander B. Trowbridge (acting)	Jan. 1967	Mar. 1967
John T. Connor	Jan. 1965	Jan. 1967
Luther H. Hodges	Jan. 1961	Jan. 1965
FEDERAL HIGHWAY ADMINISTRATOR (note a): Lowell K. Bridwell	Apr. 1967	Present
DIRECTOR OF PUBLIC ROADS (note c): Francis C. Turner	Jan. 1967	Present
Rex M. Whitton	Feb. 1961	Dec. 1966

<sup>a</sup>Position created by the Department of Transportation Act (Public Law 670, 89th Cong.)

<sup>b</sup>All functions, powers, and duties of the Secretary of Commerce under certain laws and provisions of law relating, in general, to highways were transferred to and vested in the Secretary of Transportation by the Department of Transportation Act.

<sup>c</sup>Title changed from Federal Highway Administrator, Department of Commerce, in April 1967.

OFFICE OF THE SECRETARY OF TRANSPORTATION  
WASHINGTON, D.C. 20590

July 18, 1967

Mr. Bernard Sacks  
Assistant Director  
Civil Accounting and  
Auditing Division  
U. S. General Accounting Office  
Washington, D. C. 20548

Dear Mr. Sacks:

Your letter of May 2, 1967, to the Secretary of Transportation, requested the Department's views on the comments of the Federal Highway Administrator on your draft report to the Congress titled, "Follow-up Review of Right-of-Way Activities in the States of South Carolina and Tennessee."

The comments of the Federal Highway Administrator are enclosed. We have reviewed these comments and believe that they are appropriately responsive to the matters discussed in your draft report. We appreciate the opportunity afforded us to review the draft report.

Sincerely,



Alan L. Dean  
Assistant Secretary  
for Administration

Enclosure

COMMENTS ON GENERAL ACCOUNTING OFFICE DRAFT REPORT TITLED,  
"FOLLOW-UP REVIEW OF  
RIGHT-OF-WAY ACTIVITIES IN THE STATES OF  
SOUTH CAROLINA AND TENNESSEE"

U. S. DEPARTMENT OF TRANSPORTATION  
FEDERAL HIGHWAY ADMINISTRATION  
Office of Audits and Investigations

July 1967

RECOMMENDATION TO THE FEDERAL HIGHWAY ADMINISTRATOR (p. 25)

The following GAO recommendation appears on report page 25:

"Accordingly, we recommend that the Federal Highway Administrator bring to the attention of responsible Bureau officials the matters discussed in this report and consider the need to revise Bureau policy to more clearly define the appraisal elements considered essential to an adequately supported opinion of value. We recommend also that the Administrator direct that Bureau officials closely survey State right-of-way practices and procedures and that as a prerequisite for Federal participation in right-of-way costs incurred by the States, division office personnel take a more firm attitude in requiring State adherence to Bureau policies and procedures. To achieve full effectiveness of such surveillance we recommend that the Administrator direct division engineers take positive administrative action to achieve improvements in all areas where weaknesses are noted by various organizational groups within the Bureau."

As recommended, we will bring to the attention of responsible Bureau officials matters discussed in this report. We have previously considered the need to revise Bureau policy to more clearly define the appraisal elements considered essential to adequately supported opinions of value and have determined that it would not be practicable nor desirable to revise Bureau policy in this regard because the appraisal elements that may be essential vary considerably depending on such factors as the type, location, and highest and best use of the property.

Concerning the references in the report to weaknesses in appraisals, we review appraisal reports on a sampling basis and prior to the GAO audit had not reviewed all of the appraisal reports questioned by GAO, but have now reviewed them. Admittedly, we cannot accept some of these reports and would not have accepted them had they been selected as part of our sampling procedures.

However, we do disagree with the GAO conclusion regarding many of the appraisals. We believe that this difference of opinion may stem from differences in the application of appraisal guidelines between auditors and qualified appraisers. Auditors must of necessity apply the written guidelines quite rigidly and tend to question any and all deviations from the guidelines. Our division right-of-way officers who are experts in the appraisal field have, we believe, exercised proper professional judgment in the application of our guidelines.

Concerning GAO recommendations that we closely survey State right-of-way practices and procedures and achieve full effectiveness of such surveillance we are well aware of the need for further improvements and are taking positive administrative action to achieve improvements. For example, a management and procedures review team from our Office of Right-of-Way and Location in Washington conducted a review of right-of-way activities in South Carolina in October 1966. As a result of this review, improvements in procedures were recommended and are being effected.

Concerning our requiring State adherence to Bureau policies and procedures as a prerequisite for Federal participation in right-of-way costs, we believe that we are withholding Federal participation where our professional judgment indicates that such action is warranted. It should be noted however, that appraisal guidelines are not rigid requirements and professional judgment is permitted in the application of these guidelines.

While we agree that further improvements are needed, the draft report does not include an adequate presentation of the many significant improvements that have already been made in the States right-of-way policies and procedures.

For example, both States have revised their appraisal forms several times with the objective of obtaining more adequately supported opinions of value. The use of more detailed appraisal forms has resulted in considerable improvement in the documentation of recent appraisals.

## STATE OF TENNESSEE

## DEPARTMENT OF HIGHWAYS

NASHVILLE 37219

May 11, 1967

Mr. John C. Cobb,  
Division Engineer  
Bureau of Public Roads  
226 Capitol Blvd. Building  
Nashville, Tennessee

Re: General Accounting Office  
Report on Right-of-Way  
Activities

Dear Mr. Cobb:

Our right-of-way people have carefully noted the draft of the GAO Report of its review of right-of-way appraisals in Tennessee. The GAO representatives made their study in the fall of 1965, looking over the parcel files and other records of our Right-of-Way Division. The study appears to have dealt principally with the documentation of comparable sales and determination of remainder values as shown in our appraisal reports. It is noted that a number of appraisal reports were examined and that the GAO Report comments specifically on 27 of these to the effect that the documentation contained in the reports was less than desirable with respect to remainder values and comparable sales. These 27 appraisals were made in 1963 and 1964.

As you know, there has been a progressive development of our appraisal reports during the period from 1955 to the present. From our discussion with right-of-way officials of other States at the various meetings such as AASHO and also from information in numerous publications, we know that most States have had similar needs to progressively improve the appraisal practices, particularly the report of appraisals to provide satisfactory value determinations and records to support amounts paid for rights-of-way. The expanded

Mr. John C. Cobb

May 11, 1967

Highway Programs have resulted in great improvements in appraisal practices. We are enclosing copies of our standard appraisal forms as follows:

Appraisal format 1955 - Appraisal format early 1958 -  
Appraisal format late 1958 - Appraisal format 1960 -  
Appraisal format dated January 8, 1962 -  
Appraisal format dated November 14, 1962 -  
Appraisal format dated November 25, 1963 -  
Appraisal format dated July 1, 1964 -  
Appraisal format dated December 1, 1965 and  
Appraisal format dated April 1, 1966

These illustrate the progressive changes we have made toward improved appraisal reporting and documentation. We believe our current appraisals, using our form dated 1966, have overcome the conditions commented on in the GAO Report, which dealt with appraisals made in 1963 and 1964.

During the past several years, your own right-of-way officers have kept in close touch with our Right-of-Way Division and have given us valuable advice and suggestions which we know have contributed to the improvements reflected in our records as commented on above. The various reviews by GAO of right-of-way practices have provided reports which have been given wide circulation through the Bureau of Public Roads and through the various associations which have performed the function of clearinghouse for developing ideas and information for strengthening the appraisal practices. It has always been our intention to perform our right-of-way acquisitions in accordance with prudent and acceptable procedures to the end of making fair and proper payments for properties acquired. We welcome your continued assistance and advice in these matters feeling certain, however, that



Mr. John C. Cobb

May 11, 1967

we have in the main established procedures which assure satisfactory performance.

Very truly yours,

/s/ H. D. Long  
H. D. Long  
State Highway Engineer

HDL:eb  
Attachments

CC: Com. C. W. Speight  
Mr. L. W. Keeler  
Mr. J. K. Bilbrey

SOUTH CAROLINA

STATE HIGHWAY DEPARTMENT

DRAWER 191

COLUMBIA, S. C. 29202

May 11, 1967

Mr. W. N. Dulin  
Division Engineer  
Bureau of Public Roads  
1813 Main Street  
Columbia, South Carolina

Re: Memorandum of Mr. J. M. O'Connor  
to Mr. H. E. Stark, dated May 3,  
1967, regarding GAO draft report en-  
titled "Follow-Up Review of Right-  
of-Way Activities in the States of  
South Carolina and Tennessee"

Dear Mr. Dulin:

In answer to the invitation of the General Accounting Office to express the views of the South Carolina State Highway Department with regard to the GAO's draft of a Follow-Up Review of Right of Way Activities in the States of South Carolina and Tennessee, I make these observations:

The General Accounting Office's Report of 1962 was based on their inspection completed in the State of South Carolina in 1959. Contrary to their statement much improvement has been made in the right of way organization, including the establishment and training of a competent and able appraisal review staff. This action was taken with the encouragement and advice of the Division Office personnel of the Bureau. Other improvements in the right of way organization have been initiated to better coordinate the efforts of the Right of Way Section with the Attorney General's Office and with other sections of Engineering Economic studies and specialty valuation assignments have been competently carried out by the appraisal section.

Mr. W. N. Dulin

May 11, 1967

The reviewing appraisers for the Highway Department are more competent to judge the adequacy of appraisal reports, to support their determinations of value, made by qualified appraisers than are non-appraisers who apparently assume that the forming of a land valuation opinion is an arithmetical exercise rather than an exercise of judgement.

The statements in the draft that the Bureau is continuing to accept inadequately supported appraisal reports is not correct. The statement by the General Accounting Office is based on the erroneous assumption that the appraisal Guidelines are requirements for all appraisal reports. Appraisers are best qualified to determine the adequacy of appraisal reports; just as doctors are for medical findings; lawyers for points of law; and engineers for design and construction decisions.

I am attaching explanations prepared by the appraisal section as to our reasons for accepting the appraisals listed by the General Accounting Office personnel.

[See GAO Note]

*5/12*  
GAO Note: ~~Deleted~~ *on page 2 have been deleted since they* comments relate to matters which have been clarified in the body of this report.

Mr. W. N. Dulin

May 11, 1967

The State is securing the services of the best people available for both the making of the appraisals and for the reviewing of these appraisals. We are continually demanding improvement in the technical writing of reports. The State is sending its people to courses in appraising and to seminars dealing with all aspects of right of way acquisition. As new and better techniques are developed in the appraisal field the State is adopting them in their operations.

The fee appraisers are in general taking this same action in regard to their own continuing education.

In using fee and salaried appraisers it naturally follows that their opinions must be given credence. They must use the facts actually found in the market even though these may not be the ideal comparables.

In the absence of market data the appraiser can only rely on his judgement - - as must we. Our main concern is that the property owner be fairly compensated under market and legal concepts. We believe that the determinations of value based on the judgement of the reviewers and in turn on the opinions of the appraiser have been fair and equitable.

We do not believe that the appraisal reports are perfect, with some technical weaknesses in some of the reports; but we do believe them to be constantly improving and we do believe those accepted by the Department to represent market value.

We subscribe to the principles outlined in the Guidelines and to those of the professional appraisal organizations; such as, the American Institute of Real Estate Appraisers. We do not believe that the cost in time and money would be justified in demanding demonstration type reports as a standard.

I hope these observations will in some measure explain the circumstances under which we are working and our efforts

Mr. W. N. Dulin

May 11, 1967

to constantly improve the quality of appraisals obtained by the Highway Department for Federal Aid and other State right of way acquisitions.

Yours very truly,

/s/ T. J. Hendrix

T. J. Hendrix  
State Highway Engineer