

September 2006

INTERIOR'S LAND APPRAISAL SERVICES

Actions Needed to Improve Compliance with Appraisal Standards, Increase Efficiency, and Broaden Oversight





Highlights of [GAO-06-1050](#), a report to the Subcommittee on Interior, Environment, and Related Agencies, Committee on Appropriations, House of Representatives

Why GAO Did This Study

To remedy decades of problems with its land appraisals, the Department of the Interior (Interior) in 2003 removed the land appraisal function from its land management agencies and consolidated them into the Appraisal Services Directorate (ASD). However, Congress and ASD's clients have expressed concern that ASD's appraisal services have become less efficient and effective than what previously existed. GAO was asked to assess (1) ASD's policies and procedures in ensuring compliance with appraisal standards, (2) ASD's ability to meet its customers' needs, and (3) the extent to which there are land appraisals under Interior for which ASD does not have oversight responsibility. To answer these objectives, we reviewed agency guidance, analyzed appraisal data, and used independent expert appraisers to assess compliance with standards.

What GAO Recommends

We are making a number of recommendations to strengthen ASD appraisal services, such as establishing a compliance inspection program, taking steps to increase timeliness, and clarifying ASD's oversight of grant-in-aid appraisals.

In commenting on the draft report, Interior generally agreed with our findings and recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-1050.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Robin M. Nazzaro at (202) 512-3841 or nazzaror@gao.gov.

INTERIOR'S LAND APPRAISAL SERVICES

Actions Needed to Improve Compliance with Appraisal Standards, Increase Efficiency, and Broaden Oversight

What GAO Found

Although the quality of appraisals has improved since ASD's inception, Interior's appraisal policies and procedures do not fully ensure compliance with recognized appraisal standards. ASD appraisers perform appraisals and/or review appraisals performed by co-workers or contractors. Of 324 appraisals we evaluated—representing 50 percent (nearly \$3.2 billion) of the total value of the land appraised since ASD's inception—192 appraisals appeared to be in compliance with recognized appraisal standards. The remaining 132, however, did not meet standards primarily because (1) ASD appraisers appeared to not apply specialized skills needed to perform or review the appraisals of lands involving minerals, timber, and water rights; and (2) ASD review appraisers performed cursory reviews of appraisals and approved them without considering property characteristics that can increase the lands' value, such as the presence of roads. ASD also lacked standardized appraisal review procedures, which can provide greater assurance in the consistency of appraisal reviews, as well as assurance that appraisals meet recognized appraisal standards. Furthermore, ASD has not developed a mechanism, such as a compliance inspection program, for ensuring that its appraisals meet standards. Other federal agencies doing appraisals have developed compliance systems and used them successfully.

ASD's relationships with its client agencies are hampered by inefficient operations. ASD does not have a system for ensuring that it meets realistic time frames for appraisal delivery. This often occurs because ASD has no process for (1) establishing realistic, agreed-upon deadlines for completing appraisals; (2) balancing appraisal requests with other appraisal priorities; and (3) clarifying roles for obtaining information needed to complete appraisals. In addition, some ASD business practices impede efficient appraisal delivery, add costs, and result in organizational inefficiencies. For instance, ASD performs appraisals for lands that yield little revenue to the government when compared to the cost of doing the appraisal. Also, ASD has not found enough contract appraisers with federal experience to assist their workload and have, on occasion, had to use appraisers that were not in close proximity to the land being appraised, which increased appraisal costs.

When ASD was formed, it was not assigned responsibility for appraisals of land acquired under Interior's grant-in-aid programs, even though the grant-in-aid land acquisition budget in fiscal year 2005 represented 60 percent of Interior's \$240 million total for land acquisition. Under Interior's grant-in-aid programs, many nonfederal entities receiving federal grant-in-aid funds from Interior's Fish and Wildlife Service and National Park Service are not required to obtain ASD review of appraisals for land acquisitions. Instead, appraisal and review responsibilities typically remain with the grant recipient, such as a state agency. However, there are indications that appraisal mistakes are occurring, and some Interior grant expenditures for land acquisitions may be based on appraisals that do not meet standards.

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Abbreviations

ARRTS	Appraisal Request and Review Tracking System
ASD	Appraisal Services Directorate
BLM	Bureau of Land Management
FWS	Fish and Wildlife Service
NPS	National Park Service
USDA	U.S. Department of Agriculture

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United States Government Accountability Office
Washington, DC 20548

September 28, 2006

The Honorable Charles H. Taylor
Chairman
The Honorable Norman D. Dicks
Ranking Member
Subcommittee on Interior, Environment, and Related Agencies
Committee on Appropriations
House of Representatives

The Department of the Interior (Interior) has appraised more than 6.5 million acres of land typically for purchase, sale, or exchange from November 2003 through May 2006, totaling more than \$7 billion, for such purposes as providing recreational opportunities for the public, conserving critical wildlife habitat, and opening land to the development of energy and mineral resources. Before entering into these land transactions, Interior generally determines the market value of land using an appraisal.¹ Prior to November 2003, appraisals for land transactions in Interior's Bureau of Land Management (BLM), the Bureau of Reclamation (Reclamation), the Fish and Wildlife Service (FWS), and the National Park Service (NPS) were conducted by staffs reporting to realty managers in each of these management agencies. However, since 1987, our reports, in addition to others issued by Interior's Inspector General and the Appraisal Foundation,² found that procedures used by BLM, FWS, and NPS did not comply with recognized appraisal standards.³ In one case, Interior's

¹Market value is the amount in cash, or on terms reasonably equivalent to cash, for which in all probability the property would have sold on the effective date of the appraisal, after a reasonable exposure time on the open competitive market, from a willing and reasonably knowledgeable seller to a willing and reasonably knowledgeable buyer, with neither acting under any compulsion to buy or sell, giving due consideration to all available economic uses of the property at the time of the appraisal.

²The Appraisal Foundation, a nonprofit educational organization dedicated to the advancement of professional valuation, was established in 1987 and authorized by Congress as the source of appraisal standards and appraiser qualifications.

³In general, two sets of standards apply to appraisals of federal land: (1) the Uniform Standards of Professional Appraisal Practice, developed in 1986–1987 and annually updated by the Appraisal Standards Board of The Appraisal Foundation; and (2) the Uniform Appraisal Standards for Federal Land Acquisitions, revised in 2000 by the Interagency Land Acquisition Conference, a voluntary organization composed of representatives of federal agencies that acquire land. Established in 1968, this organization is chaired through the Department of Justice.

Inspector General reported that for a BLM land exchange, department officials negotiated away a substantial interest in potentially valuable resources and improperly valued other federal and state lands. According to the U.S. Office of Special Counsel, the BLM's own internal estimates showed that the federal government stood to lose between \$97 and \$117 million on this exchange. In a different report on this exchange,⁴ the Appraisal Foundation concluded that appraisers at BLM lacked the institutional independence necessary to conduct objective appraisals and faced heavy pressure from their realty managers to conduct appraisals that would expedite land transactions. Interior's Inspector General's reports have reached similar conclusions about appraiser independence, and GAO reports have highlighted multiple cases of land transactions using misvalued land.

These findings brought considerable change in the way many Interior appraisals are carried out. After the Appraisal Foundation report on BLM's appraisal procedures was issued, officials in Interior formed a working group to determine whether problems similar to those found in BLM existed in the other land management agencies. The group concluded that a lack of appraiser independence and inconsistent application of appraisal standards were problematic within all four land management agencies. The group also concluded that past efforts to remedy appraisal problems, which typically included refining or augmenting program guidance, had proven ineffective because revised guidance did not address issues of appraiser independence. As a result, in November 2003, Interior removed appraisers from the realty offices in each of the agencies and consolidated them in a new office, the Appraisal Services Directorate (ASD), reporting to the National Business Center. Interior primarily took this action to insulate appraisers from institutional pressure, having them report to, and receive performance evaluations from, other appraisers, rather than realty specialists responsible for completing land transactions within their respective land management agencies. ASD's appraisers have a dual responsibility: performing appraisals as well as reviewing appraisals performed by co-workers and contractors. In implementing the consolidation, Interior directed that the efficiency of appraisal delivery, including timeliness and costs, was not to be negatively affected.

⁴The Appraisal Foundation: *Evaluation of the Appraisal Organization of the Department of Interior Bureau of Land Management*, Washington, D.C., October 9, 2002.

In addition to consolidating most appraisal services, Interior also shifted administrative functions associated with appraisals—previously conducted by each of the land management agencies realty offices—to other units within Interior. Contracting for land appraisals was one such function. Since ASD’s inception, it has performed about 500 appraisals in-house per year and contracted more than 1,200 appraisals per year. Upon receipt of a contractor’s completed appraisal, ASD reviews it for compliance with recognized appraisal standards. In this regard, choosing qualified contract appraisers is critical if ASD is to help ensure that appraisals meet federal standards, and that the federal government makes sound financial management decisions for land transactions. Given the significant reliance on contractors to conduct the appraisals, Interior officials decided to consolidate the functions for (1) awarding appraisal contracts, (2) paying the contract appraisers, and (3) billing the land management agency clients for the completed appraisals. These functions were placed within Interior’s National Business Center—a fee-for-service organization—which has experience in financial management, acquisition services, procurement, and human resource operations.

Land management agencies also conduct land transactions through various grant-in-aid programs that are administered by offices other than their realty offices. Appraisals of these transactions are usually arranged by the nonfederal grant recipient, such as state or local governments. Interior’s Inspector General has identified long-standing problems with appraisals conducted by non-federal partners, although not specifically with the grant-in-aid programs, including pressure on review appraisers to approve substandard appraisals. For example, between 1992 and 2001, eight Interior Inspector General’s reports documented significant problems with appraisals conducted by non-federal partners, including incorrect valuations based on questionable property dimensions, flawed assumptions about the highest and best use⁵ of the land, and inaccurate comparable sales analyses. Specifically, in a 1992 report,⁶ Interior’s Inspector General found that there was little assurance that fair market values were accurately estimated because the bureaus did not follow established standards regarding the appraisal process. More recently, a

⁵“Highest and best use” is defined as the land’s use that is physically possible, legally permissible, financially feasible, and maximally profitable.

⁶Interior’s Office of Inspector General, *Land Acquisitions Conducted with the Assistance of Nonprofit Organizations*, Report No. 92-I-833, Washington, D.C., May 1992.

September 2005 Inspector General report⁷ found that these problems still remain with appraisals conducted by Interior's non-federal partners.

Since ASD's inception, new problems have emerged. With the consolidation of appraisers from BLM, Reclamation, FWS, and NPS, each of which had unique appraisal procedures, realty managers have expressed concern about the possible inconsistency of appraisal quality. In addition, one realty specialist from NPS asserted that appraisal time frames have doubled from pre-ASD days. ASD officials, in response, claimed that realty specialists have unrealistic expectations regarding time frames, in part because the time frames they were used to under the previous system—when realty specialists had undue influence over the process—were inappropriately short. ASD officials also explained that time frames have been affected by new business practices—resulting from the consolidation of appraisal services—over which they have no control. These disagreements have continued since ASD's inception.

In this context, you requested that we determine (1) the extent to which Interior's appraisal policies and procedures ensure compliance with recognized appraisal standards for appraisals conducted within ASD; (2) what, if anything, affects ASD's working relationships with its client agencies and its overall efficiency in providing appraisal services; and (3) the extent to which there are land appraisals under Interior for which ASD does not have responsibility.

To determine if Interior's appraisal policies and procedures are sufficient to ensure compliance with recognized appraisal standards, we retained appraisal experts to evaluate 324 of the 2,905 appraisals completed from ASD's inception through February 21, 2006, consisting of appraisals for land transactions involving land exchanges; land valued over \$10 million; National Wildlife Refuge revenue-sharing; NPS acquisitions; and lands having minerals, timber, or water rights. These appraisals collectively represented 50 percent (nearly \$3.2 billion) of the total value of the land appraised from ASD's inception through February 21, 2006. To determine what, if anything, affects the working relationships between ASD and its client agencies (and what affects ASD's overall efficiency in providing appraisal services), we assessed agreements between ASD and its client

⁷Interior's Office of Inspector General, *Managing Land Acquisitions Involving Non-Federal Partnerships, Department of the Interior*, Report No. W-IN-MOA-0085-2004, Washington, D.C., September 2005.

agencies that dictate the terms of ASD's service. We also analyzed timeliness data from Interior's Appraisal Request and Review Tracking System (ARRTS) and cost data from Interior's National Business Center. We also conducted structured interviews with ASD officials and interviewed realty specialists in the agencies ASD serves. To determine the extent to which there are land appraisals under Interior that ASD does not have the responsibility for overseeing, we identified Interior's grant-in-aid programs and appraisal requirements for each.

We assessed the reliability of the data provided by Interior and determined that these data were sufficiently reliable for the purposes of this report. A more detailed description of our scope and methodology is presented in appendix I. Our work was conducted in accordance with generally accepted government auditing standards, including an assessment of internal controls, from December 2005 through August 2006.

Results in Brief

Interior's appraisal policies and procedures do not fully ensure ASD's compliance with recognized appraisal standards, although consolidation has greatly improved the independence and objectivity of appraisals. ASD appraisers have the responsibility of either performing appraisals or reviewing those performed by co-workers or contractors. Of the 324 appraisals our appraisal experts reviewed, 192, or about 60 percent of these, appeared to be in compliance with recognized appraisal standards. For the remaining 132, or 40 percent, however, ASD performed and/or approved appraisals that did not meet standards. For these appraisals, the federal government has limited assurance that the land it appraised for purchase, sale, or exchange, reflected market value. In 42 of these 132 appraisals, the property being appraised had unique characteristics, such as minerals, timber, or water rights, which require specialty appraisal skills. However, appraisers and reviewers either lacked or did not apply specialty skills needed to estimate the value for the unique characteristics—despite Interior's requirement that appraisers and reviewers have the knowledge necessary to perform and review appraisals, and apply proper skills in accordance with appraisal standards. In addition, in 90 of the 132 cases which did not require specialty skills, ASD review appraisers conducted cursory reviews of appraisals performed by co-workers or contractors. As a result, they approved appraised values that did not reflect key property characteristics, such as the presence of roads allowing access to properties, which can substantially increase a property's value. Information pertaining to these characteristics was included in the appraisal reports reviewed by ASD review appraisers. Appraisal review oversights were commonplace,

however, because ASD has not developed standardized appraisal review procedures, which can provide greater assurance that appraisal reviews are consistent and that appraisals meet recognized standards.

Consequently, review appraisers have discretion in deciding which appraisals should receive thorough or cursory reviews. Furthermore, ASD has not developed a mechanism, such as a compliance inspection program, for ensuring that the appraisals it approves meet recognized appraisal standards. Such a mechanism is used by other federal appraisal agencies, such as the Forest Service; this mechanism, among other things, helps to prevent (1) appraisals being performed by staff without proper skills and (2) cursory appraisal reviews.

ASD's working relationships with its client agencies and its efficiency in conducting appraisal services are hampered by inefficient operations. Specific examples include the following:

- ASD does not have a system to ensure that it meets realistic time frames for appraisal delivery. Timely appraisal delivery is critical to the success of the agencies' land acquisition and management goals—agreements on land transactions between agencies and private landowners can fall apart if appraisals are not completed on a timely basis. Although customer-service agreements between ASD and its client agencies call for timely appraisal delivery, ASD does not have a process for establishing realistic or helpful deadlines for completing appraisals. Our analysis found that 2,520 (or 71 percent) of the 3,500 completed appraisals in ASD's database missed their client-agency-set deadlines, with an average delay of about 4 months. In addition, because ASD has not developed a system of prioritizing each agency's respective appraisal requests or of responding to changing priorities to address emergency appraisal needs, ASD does not coordinate appraisal requests with client agencies' other appraisal priorities, which adds to appraisal delays. Finally, unclear roles and responsibilities for obtaining information needed to complete appraisals—such as property descriptions, land deeds, title information, and sales histories—negatively impacts timely appraisal delivery. Without clearly defined roles and responsibilities for obtaining information, appraisals are often delayed—sometimes several months before being initiated.
- Likewise, several ASD business practices impede service delivery, add costs, and result in organizational inefficiencies. First, the contracting and billing functions add costs and time to appraisal delivery. Since Interior centralized contracting for appraisals in the National Business Center, contracts that, in the past, had been awarded within a few business days under each of the land management agencies' processes, now take on average about 10 days to be awarded, with many taking significantly more

time. Second, ASD has not found enough contract appraisers with government experience to assist them in their substantial workload. Relying on contract appraisers without this experience can end up being costly and time consuming; therefore, ASD relies on a handful of reliable contractors who often are not located in close proximity to the land being appraised and, therefore, charge high fees to cover travel expenses. Finally, ASD appraises lands that yield little revenues in comparison to the costs of performing the appraisals. With the inception of ASD, land management agencies required some of these appraisals to be performed by ASD appraisers, which can cost the federal government several thousand dollars per appraisal, according to an ASD regional appraiser, because ASD requires appraisers to visit the remotely located sites. Many of these private rights-of-way, however, yield less than \$500 per year.

When ASD was formed, it was not assigned responsibility for appraisals of land acquired under Interior's grant-in-aid programs. The total land acquisition budget for these programs was nearly \$140 million in fiscal year 2005, or 60 percent of Interior's \$240 million appropriated land acquisition budget. While ASD was formed as an independent organization to ensure that appraisals meet federal standards, in eight of the nine FWS- and NPS-administered grant-in-aid programs we reviewed, nonfederal entities receiving grant-in-aid funds are not required to submit appraisals for ASD review. Instead, appraisal review responsibilities within grant-in-aid programs are largely the responsibility of the state and local grant recipients. However, the grant manager for the only grant program we reviewed that requires ASD review told us that he recognizes the value of obtaining an independent "check" to ensure that they do not offer more or less than market value. Despite inconsistent requirements for ASD review of grant-in-aid appraisals, Interior has no clear policy on why some grant-in-aid programs require federal review of land appraisals while others do not. Secretarial Order 3258, issued in December 2004, outlines ASD's role in reviewing appraisals for nonfederal parties. However, several ASD regional appraisers told us that the order does not define "nonfederal parties" and, therefore, it is not clear whether the order applies to grant recipients under the grant-in-aid programs. Further, two ASD regional appraisers stated that official clarification on whether Secretarial Order 3258 applies to grant recipients would be helpful.

We are making a number of recommendations designed to help resolve the compliance problems that persist, such as ensuring that ASD has (1) appraisers with specialized skills needed for some appraisals, (2) consistent appraisal review procedures, and (3) a periodic monitoring system for appraisals with a higher likelihood of noncompliance. We are also making recommendations to improve the accountability and

efficiency issues that need to be addressed in order to build on the progress that ASD has made to date, including criteria for ensuring timely delivery of appraisals and the removal of some business practices that have added time and costs to appraisal delivery. Finally, we are also recommending that Interior clarify the terms of ASD's appraisal oversight in the review of grant-in-aid appraisals.

In commenting on a draft of this report, Interior generally agreed with our findings and recommendations. It said that it welcomed the report's intent to improve the overall departmental appraisal process and services provided through ASD, and that ASD will continue to strive to provide high quality valuation services. It also said that the recommendations, once implemented, will further strengthen how Interior performs real property appraisals and that it is dedicated to addressing the recommendations promptly. Interior also offered several suggestions for updating information in the report and for technical clarifications; we have incorporated these suggestions, as appropriate.

Background

Interior's four land management agencies—BLM, FWS, NPS, and Reclamation—collectively manage nearly 450 million acres of parks, wilderness, forests, range, and other land. These land holdings comprise nearly one-fifth of the total area of the United States. Buying, exchanging, or leasing land is an integral part of these agencies' land management functions to, for example, better consolidate existing holdings or acquire land deemed important for public purposes. For several decades, these land transactions have generated considerable debate over how to balance, on federally managed lands, resource utilization (such as timber sales and minerals extraction) with resource protection and recreational use. Regardless of the decisions made about which lands to acquire or divest and for what purposes, however, Interior generally requires acquisitions to be based on market value.

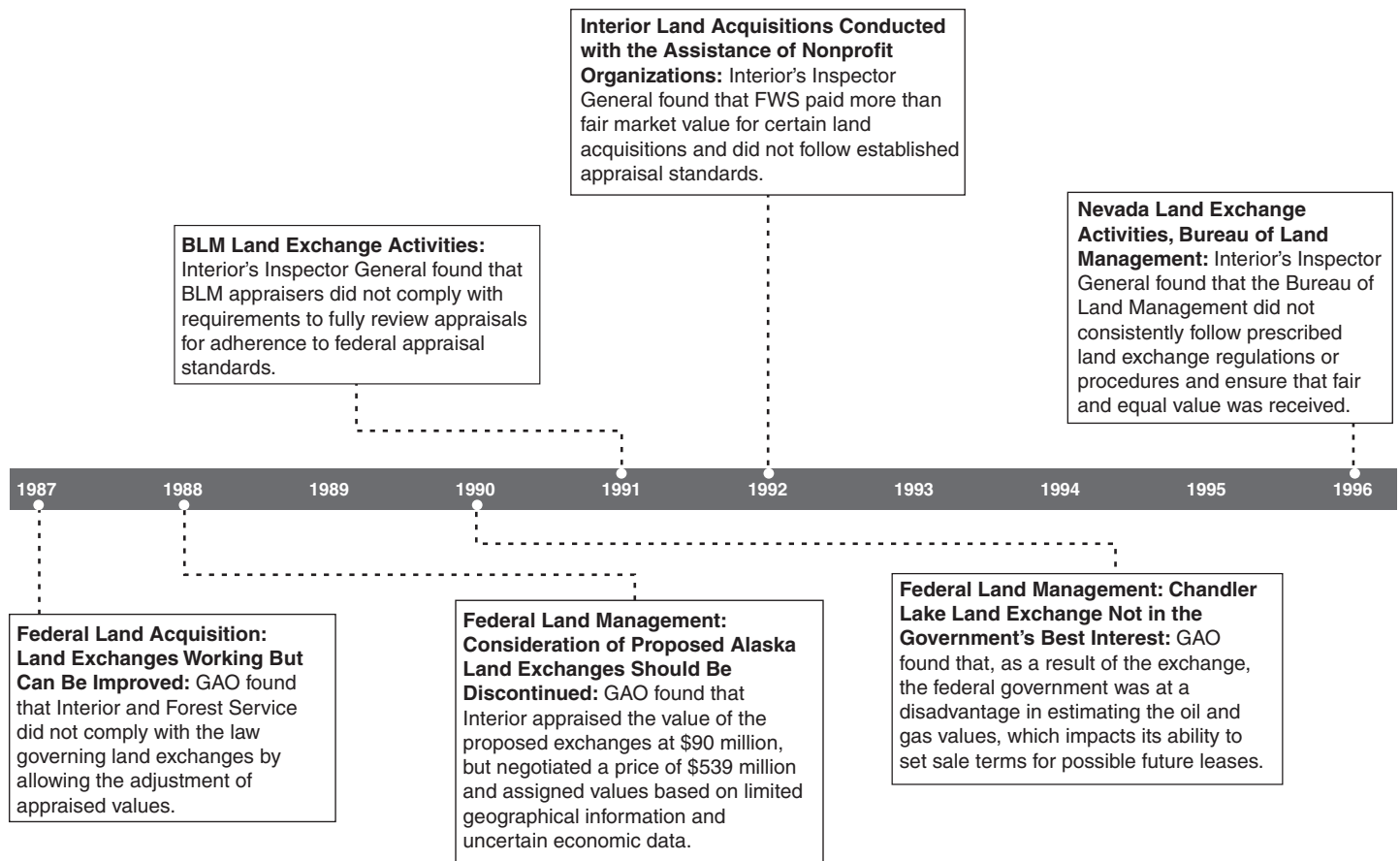
Objective land appraisals are at the heart of establishing market value. Without objective appraisals, estimates of land values can be subjected to the machinations of buyers and sellers, each of whom may have a vested interest in deviating from market value in order to obtain a more favorable "price" or complete a transaction more quickly. In creating ASD, the Secretary of the Interior required all of Interior's real estate appraisals to conform to the Uniform Appraisal Standards for Federal Land Acquisitions or the Uniform Standards of Professional Appraisal Practice—the two nationally recognized appraisal standards—which, when followed, help an appraiser to develop an objective and credible market-value estimate.

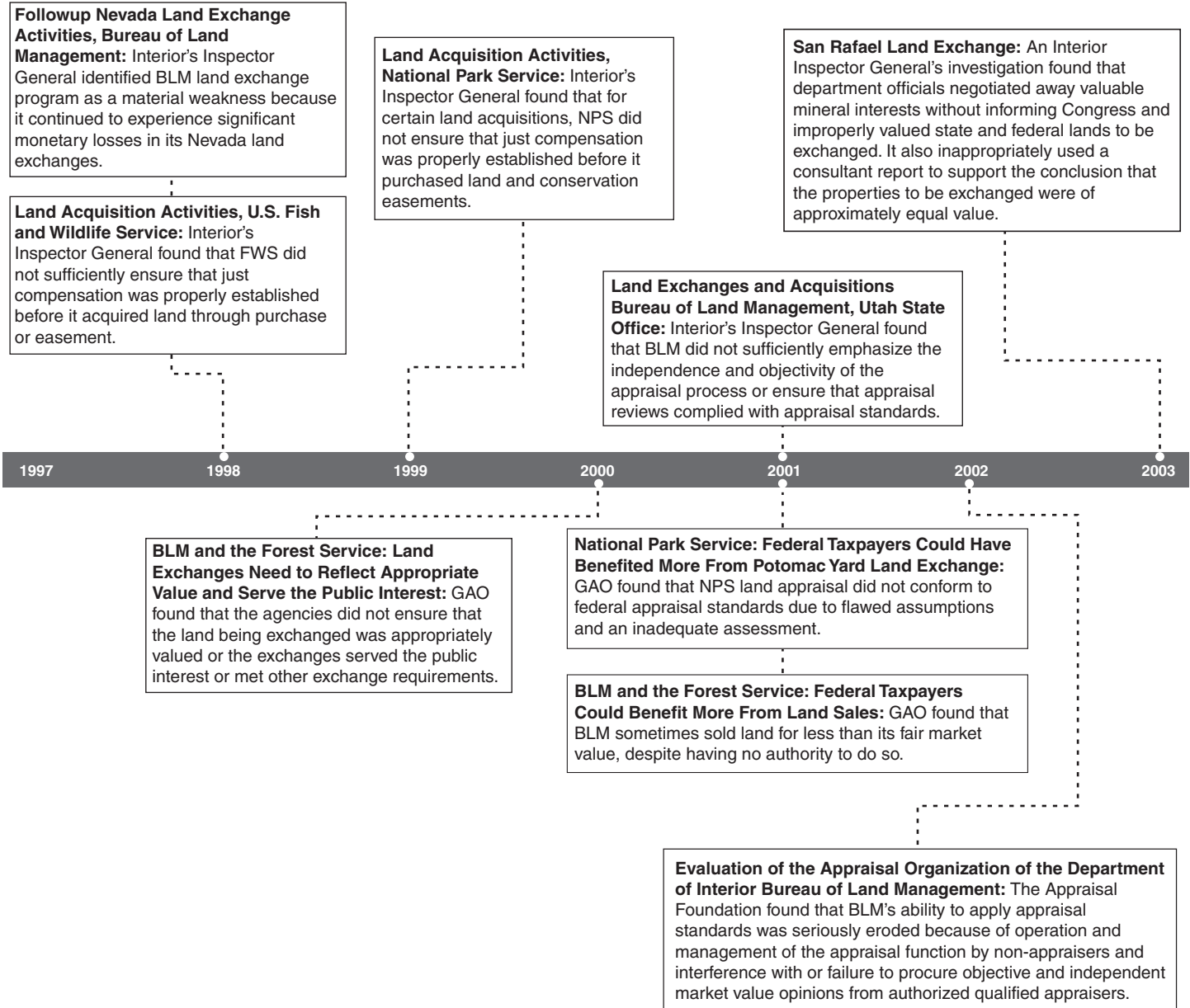
These appraisal standards require appraisers to identify a property's highest and best use. A property's highest and best use can be influenced by the presence of resources, such as minerals or timber (which typically indicates income-generating potential), as well as functioning structures, such as grain silos. It can also be influenced by legal restrictions, such as limitations to water rights, lack of property access, or easements that restrict types of development and could impact the property's value. Taking these characteristics into consideration, one approach appraisers use is to compare, to the subject property, other properties with similar characteristics that have recently been sold in the same (or similar) markets within a reasonable time period. Appraisers use these comparable sales to estimate the subject property's market value. Before appraisals are approved for agency use, however, they are reviewed by a review appraiser. Upon obtaining an opinion of market value from an appraiser, Interior staff generally cannot deviate from it when completing a land purchase, sale, or exchange with a nonfederal entity.

Since 1987, numerous audits and reviews have noted problems with Interior's ability to conduct appraisals that adhere to standards. For example, a 1998 Interior Inspector General's report on Nevada land exchanges involving BLM concluded that the federal government lost \$18.2 million in three land exchanges because appraisers ignored relevant information and incorrectly identified the highest and best use of the property. The Inspector General concluded that these losses also occurred because the federal review of the appraisals—which is the final compliance check—were cursory and failed to comply with recognized appraisal standards, despite the fact that all relevant information was included in the appraisal reports to reach a correct conclusion of value.⁸ The October 2002 Appraisal Foundation report we cited earlier found the problems at BLM to be even more systemic: that appraisers lacked institutional independence, which manifested itself in inconsistent application of appraisal standards and resulted in a failure to assure objective and independent market-value opinions. Figure 1 provides examples of past reports issued between 1987 and 2003, and problems found with Interior agencies' land acquisition, exchange, and appraisal programs.

⁸Interior, Office of Inspector General. *Audit Report: Follow up of Nevada Land Exchange Activities, Bureau of Land Management*, Report No. 98-I-689, Washington, D.C., September 1998.

Figure 1: Examples of Past Reports Issued between 1987 and 2003, and Problems Found with Interior Agencies' Land Acquisition, Exchange, and Appraisal Programs





Source: GAO.

Upon establishing ASD, Interior officials created a formal appraisal-request process that relies exclusively on the ARRTS web-based application and automated database. ARRTS allows land-management agency realty specialists to electronically request an appraisal, specify its priority (low, routine, high, or emergency), and set a requested completion date. In addition, realty specialists can include, with the appraisal request, pertinent information necessary for the appraisal, including aerial maps, land title information, and legal descriptions. Upon receipt of a request, the relevant ASD regional appraiser assigns the appraisal project to an ASD appraiser, who will either undertake the appraisal or give it to a contractor, depending on the ASD appraiser's workload, the appraisal complexity, and other factors. When appraisals are contracted, ASD appraisers prepare statements of work and solicit bids from at least three certified appraisers. ASD appraisers send the bids they receive to the National Business Center's contracting office at Fort Huachuca, Arizona, (referred to hereafter as the "Southwest Branch") for the contract award phase. Upon completion of the appraisal, whether conducted in-house or by contract, an ASD review appraiser reviews the appraisal for compliance with applicable appraisal standards. Once the appraisal is deemed to meet the appraisal standards by the ASD review appraiser, the appraisal is then approved for agency use and sent to the requesting realty office.

At the time ASD was formed, officials in Interior's Office of Policy Analysis decided that associated administrative aspects of the appraisal function should be located, along with ASD, in the National Business Center. Thus, the appraisal contract management function was removed from the land management agencies and centralized at Interior's National Business Center's Southwest Branch. In addition, the National Business Center's Office of Budget and Finance inherited the responsibility for processing payment for contract appraisers. This office receives contractor invoices from the Southwest Branch and pays contractors out of the National Business Center's Working Capital Fund and, subsequently, seeks reimbursement from the land management agencies that requested the appraisals. According to officials in this office, to ensure that the land management agencies have the funds to reimburse the Office of Budget and Finance, the agencies must obligate funds for the appraisal work prior to award of the contract.

In creating ASD, Interior concluded that a new independent function was needed; past efforts to remedy appraisal problems, which typically included refining or augmenting program guidance, did not address the independence issue and had therefore proved ineffective. However, Interior officials focused exclusively on appraisal problems within the

realty divisions of the land management agencies, so appraisals for some land transactions remained with the land management agencies. For example, responsibility for appraisals of grant-in-aid acquisitions, which include giving federal funds to nonfederal agencies for acquiring critical wildlife habitat, remained within the land management agencies. Unless requested by the land management agencies, appraisals for acquisitions under the grant-in-aid programs are not reviewed by ASD.

Interior's Appraisal Policies and Procedures Do Not Fully Ensure Compliance with Recognized Appraisal Standards

Interior's appraisal policies and procedures do not fully ensure that appraisals performed and reviewed by ASD appraisers comply with requirements set forth in the Uniform Standards of Professional Appraisal Practice or the Uniform Appraisal Standards for Federal Land Acquisitions, the two nationally recognized appraisal standards. While consolidating appraisal services into ASD has vastly improved the independence of appraisers and the objectivity of their products, some other problems identified in prior audits still remain, particularly with high-value appraisals and other complex appraisals completed by ASD.

ASD's appraisers have a dual responsibility: both to perform appraisals, and to review appraisals performed by co-workers and contractors. We evaluated, with the use of appraisal experts, 324 of the 2,905 appraisals completed under ASD from its inception in November 2003 through February 21, 2006. We selected these 324 appraisals because they have characteristics similar to appraisals that did not meet the appraisal standards of previous audits. In addition, many of these appraisals are for complex properties and, in many instances, more difficult to appraise. In evaluating these appraisals, our appraisal experts found that 192 of the 324 appraisals, or about 60 percent, appeared to be in compliance with recognized appraisal standards. In addition, our appraisal experts—who were familiar with appraisals produced by the Interior agencies prior to ASD's inception—stated that ASD's appraisals are a vast improvement over past appraisals. Our experts also believed that ASD's management has made improvements in normalizing appraisal practices for appraisers from four different agencies with four different land management objectives and land acquisition goals. Accordingly, these improvements appear to have prevented some appraisals with compliance problems from being used, such as in the following examples:

- ASD reviewed an appraisal requested by FWS for 101 acres, including five mining claims, near St. George, Utah. The property was originally appraised for about \$2 million by a contract appraiser. Upon review, ASD rejected the appraisal because the contract appraiser did not show that the

buyers would have sufficient water rights to use the property for mining. ASD's review found that there were not sufficient water rights to support mineral production. Instead, ASD found that the highest and best use should be residential development, which resulted in an appraised value of \$910,000—or over \$1 million less than what the original appraisal identified. The property owner agreed to ASD's revised appraisal, according to the ASD Regional Appraiser.

- ASD reviewed an appraisal requested by BLM in Natrona County, Wyoming, which involved placing a conservation easement and a public fishing easement on 335 acres. The easements were originally valued by a contract appraiser at about \$1.7 million, but ASD found that the appraiser included mineral interests that were not owned by the private landowner, such as sand and gravel, in the estimated value. As a result of ASD's findings, the contract appraiser changed her opinion of value to \$1.16 million, which was over \$500,000 less than what the original appraisal had identified.

For the remaining 132 appraisals, or 40 percent of those our appraisal experts evaluated, however, ASD appraisers performed and/or reviewed and approved appraisals that did not meet recognized appraisal standards. According to ASD, a 40 percent noncompliance rate is well within industry norms for appraisal audits. Further, noncompliance with recognized appraisal standards does not necessarily mean that appraised value is incorrect, but it limits assurance that land the federal government appraised for purchase, exchange, or sale, reflected market value. Appraisals not meeting standards included 60 land exchanges and sales, 29 easements, 8 NPS acquisitions, and 28 revenue-sharing appraisals, which total slightly more than \$1 billion in appraised value. Table 1 shows, by appraisal type, the total number of appraisals our appraisal experts reviewed (for the period November 2003 through February 21, 2006) and the number, percentage, and total-dollar land value determined by the appraisals that did not appear to meet standards.

Table 1: Land Appraisals (November 2003 through February 21, 2006) That Did Not Appear to Meet Standards, Compared with Total Appraisals Reviewed

Appraisal type	Total	Number and percentage of appraisals not meeting standards, and value of land covered by these appraisals		
		Number	Percentage	Land value (in dollars)
Land exchanges and sales	147	60	41%	\$943.6 million
Easements	63	29	46	22.3 million
NPS acquisitions	47	8	17	13.3 million
Revenue-sharing	44	28	64	7.2 million
Other ^a	23	7	30	62.3 million
Total	324	132	41%	\$1.05 billion^b

Source: GAO analysis of ARRTS appraisal data.

^aOther appraisals include acquisitions for BLM and Reclamation, as well as NPS permits.

^bNot all of the \$1.05 billion was necessarily at risk. To determine what portion of this amount was at risk of being incorrectly valued would necessitate that the land be re-appraised.

The Uniform Standards of Professional Appraisal Practices require an appraiser to have sufficient knowledge and experience to complete an appraisal assignment competently. For 42 of the 132 appraisals that did not appear to meet standards (a total of nearly \$119 million in appraised value), appraisers who performed appraisals and reviewed the appraisals did not have or apply specialized skills, such as those needed to assess the value of minerals, timber, or water rights present on the property—all factors that typically impact land values. As a result, while performing or reviewing the appraisals, the appraisers did not consider how the presence of these key characteristics affected the properties' values:

- In February 2004, ASD appraised a BLM parcel of land, as well as a parcel of private land, for potential exchange; the land exchange totaled 841 acres. Because the land contained substantial amounts of timber, its value should have been considered by the appraiser in performing or reviewing the appraisal. However, we found that proper timber valuations were not used in the appraisal. Therefore, ASD's conclusion that the properties being exchanged totaled about \$2.3 million is not supported by the appraiser's analysis and is potentially incorrect.
- Between March 2005 and May 2005, ASD appraised two privately owned land parcels, totaling 154 acres, for potential exchange with BLM. The ASD appraiser assumed that water was available on each parcel, which can

significantly increase the lands' value. However, the appraisal report did not resolve whether water was available on the property. Consequently, ASD's conclusion that the parcels' combined appraised value of nearly \$1 million may not be supported. The private landowner did not accept the terms of the exchange because he believed the appraisal value was too low, especially in an appreciating real estate market, according to the ASD review appraiser for this land transaction.

If the appraisal assignment cannot be performed competently, the Uniform Standards of Professional Appraisal Practice also requires the appraiser to add to the appraisal report a description of his/her lack of knowledge and/or experience, as well as the steps taken to correctly complete the assignment. In reviewing these appraisal reports, our experts also found that the reports did not disclose the appraisers' lack of specialized experience or the steps to address the needs of the assignment, as required by the standards.

When ASD was formed, officials within Interior's Office of Policy Analysis decided to transfer into ASD all appraisers whose primary role was to perform appraisals consistent with recognized appraisal standards. In so doing, the officials decided that it was not necessary to transfer appraisers with some specialized skills, such as staff with minerals assessment expertise, into ASD. As a result, most ASD appraisers have only general appraisal skills. Interior officials believe that this offered a greater degree of flexibility in assigning appraisers to a wide variety of cases. However, the Uniform Appraisal Standards for Federal Land Acquisitions states that appraisers must have specialized training and experience to properly understand and apply the proper methodologies for estimating the market value of properties with minerals. A BLM geologist, who is licensed to perform minerals assessments, told us that without certified minerals appraisers, ASD cannot conduct adequate appraisals or reviews of minerals reports. He emphasized that mineral properties are complex, and that a specialist is needed to ensure proper valuations of those properties. He also said that an appraiser unfamiliar with minerals and their properties may have difficulty understanding some of the technical data used in determining their values.

In addition to requirements that appraisers have the proper training for appraisals needing specialized skills, the Uniform Appraisal Standards for Federal Land Acquisitions also require that, when reviewing appraisals, a review appraiser must determine whether the appraiser's opinions of value are adequately supported. Despite this requirement, our appraisal experts found that for 90 of the 132 appraisals that did not meet standards—

totaling about \$930 million in appraised value—the review appraisers approved appraisals without using adequate analyses to support the conclusion of value. For example, ASD review appraisers conducted cursory reviews of these appraisals and, as a result, approved appraised values that did not reflect key property characteristics, such as the presence of roads allowing access to properties, which can substantially increase a land’s value. According to the experts we employed to review these appraisals, sufficient information pertaining to these characteristics were, in most cases, included in the appraisal reports that ASD appraisers reviewed. This information should have triggered concerns about the adequacy of the appraisers’ estimates of land values:

- In September 2004, ASD appraised about 10,100 acres outside Dillon, Montana, for placement of two conservation easements by FWS. Our appraisal experts found that the ASD reviewer accepted insufficient analysis of comparable sales in the appraisal report. For example, the easements on the sales chosen by the appraiser appeared not to be comparable to the subject property, according to the appraisal experts we retained, but the ASD reviewer overlooked these shortcomings and approved the appraised value of \$6.8 million for both easements. FWS acquired one easement for \$2.9 million, and is close to acquiring the second, for \$3.9 million, which will likely happen later in 2006.
- Between December 2005 and January 2006, ASD appraised multiple parcels totaling 64 acres near Roosevelt, Utah, for placement of an easement by Reclamation to install a pipeline. Our appraisal experts found that the ASD reviewer accepted the appraisal despite the fact that the appraiser overlooked the presence of utility and access easements—which may impact the land’s value. Although this information was available in the appraisal report, the ASD reviewer did not require corrections to the appraisal and approved the appraised easement value of \$41,700 to be used by Reclamation to purchase the easement. Reclamation acquired the easement in June 2006.
- In June 2005, ASD appraised 100 acres for sale by BLM in Douglas County, Nevada. Our appraisal experts found that the appraiser’s analysis of market conditions did not comply with standards, but the ASD reviewer accepted the appraisal report anyway. For example, information in the appraisal report showed that lands with similar characteristics (comparables) had increased in value about 5 percent per month, over the previous year. However, the appraiser did not account for appreciation between the date of appraisal and the dates that the comparables sold—a period of about 1 year. Also, the ASD reviewer approved the appraisal without requiring this information to be reconciled. The appraiser

estimated the parcel's value to be \$10 million, but it sold for \$16.1 million several months later.

ASD does not have a system for ensuring that its appraisal reviews are performed consistently. As a result, ASD review appraisers exercise significant discretion in how they perform appraisal reviews—sometimes producing results that deviate from recognized appraisal standards. ASD's review appraisers are primarily those that performed appraisal reviews under each of their respective land management agencies within Interior. Several ASD regional appraisers, who were previously appraisers in the Interior agencies, told us that the quality of appraisal reviews differs dramatically between review appraisers from each of the different agencies. Several Regional Appraisers also said that the review appraisers seem to follow the procedures that they had when they were within their individual agency. However, each of the agencies had its own appraisal review procedures.

One procedure that would aid the review process and add consistency, would be to require that reviewers use checklists, when appropriate, in conducting their appraisal reviews. The use of checklists are recommended by the Uniform Appraisal Standards for Federal Land Acquisitions because they typically remind appraisers to consider, among other things, key physical and legal characteristics that can affect a property's use and value. For instance, our appraisal experts found that checklists not only remind reviewers that the appraisers considered key appraisal characteristics, but they can also help improve the quality and completeness of appraisals. For example, appraisers had used checklists for 97 of the 324 appraisals our appraisal experts reviewed. For the appraisals that had checklists, nearly 80 percent met standards. Figure 2 shows an appraisal checklist recommended by the Uniform Appraisal Standards for Federal Land Acquisitions.

Figure 2: Appraisal Checklist from the Uniform Appraisal Standards for Federal Land Acquisitions

<u>APPRAISAL REVIEW CHECKLIST</u>	
Page No. (s)	<p>PART I - INTRODUCTION</p> <ol style="list-style-type: none"> 1. Title Page 2. Letter of Transmittal 3. Table of Contents 4. Appraiser(s)' Certification 5. Summary of Salient Facts and Conclusions 6. Photographs of Subject Property or in Sec.II) 7. Assumptions and Limiting Conditions 8. Scope of Appraisal 9. Summary of Appraisal Problems
	<p>PART II - FACTUAL DATA</p> <ol style="list-style-type: none"> 10. Legal Description 11. Purpose of Appraisal (and definition of terms) 12. Area and Neighborhood Data 13. PROPERTY DATA: <ol style="list-style-type: none"> a. Site (Timber, use, access, frontage, soils, topo, area, utilities, easements, flood hazard, <u>MINERAL STATEMENT</u>) b. Improvement(s) Description, condition and use history c. Fixtures and /or Equipment d. Conveyance History-10 yr. Sales and 3 yr. Rent e. Assessed Value and Annual Tax Load f. Zoning and other land use regulations
	<p>PART III - ANALYSIS AND CONCLUSIONS</p> <ol style="list-style-type: none"> 14. Analysis of Highest and Best Use 15. Land Value 16. Cost Approach (or why not used) 17. Whole Prop. Sales Comparison (or why not used) 18. Income Approach (or why not used) 19. Correlation and Final Value Estimate 20. Before & After Analysis, if applicable <ol style="list-style-type: none"> a. Partial Take b. Less than Fee (Scenic Ease, Dev. Rts, e.g.)
	<p>PART IV- EXHIBITS AND ADDENDA</p> <ol style="list-style-type: none"> 21. Location Map 22. Comparable Sales/Rentals Location Map(s) 23. Individual Sale/Rental data details w/photos 24. Plot Plan (Site Sketch) w/bldg. location(s) 25. Floor Plans (if applicable) 26. Title Report (if available) 27. Other Pertinent Exhibits (References, Leases, zoning excerpts, land use/environmental health regs) 28. Appraiser(s) Qualifications 29. Certification of Landowner Contact/Accompaniment

Source: ASD.

Overall, as evidenced by the information presented in this section of our report, ASD lacks a management control program to ensure that appraisers conduct appraisals and reviews in accordance with applicable standards. Internal control standards for the federal government indicate that management should ensure that skill needs are continually assessed, and that the organization is able to obtain a workforce that has the required skills that match those necessary to achieve organizational goals. In addition, internal controls should generally be designed to assure that ongoing monitoring occurs in the course of normal operations, including regular management and supervisory activities, comparisons, reconciliations, and other actions taken in the performance of duties.

The Forest Service's appraisal office faced similar management control challenges several years ago, but in response to a 2002 U.S. Department of Agriculture (USDA) Inspector General's report—which found that the Forest Service's appraisers often relied on inaccurate information when estimating lands' values—it established a compliance inspection program. In this program, the Chief Appraiser of the Forest Service annually assesses appraisals for compliance with the Uniform Standards of Professional Appraisal Practice, the Uniform Appraisal Standards for Federal Land Acquisitions, and the Forest Service's appraisal procedures. To do this, the Chief Appraiser, a regional appraiser, and two senior review appraisers, visit each region at least once every 3 years and review a sample of appraisal reports that have a higher probability of not meeting appraisal standards. As part of the inspection, the team determines whether appraisal staff and contract appraisers have the proper knowledge, experience, and training for the appraisals they perform.

Since 2002, the Forest Service's compliance inspection program has successfully identified appraisals that did not meet standards, rescinded them, and taken steps to ensure that such problems do not occur in the future, according to the Forest Service's Chief Appraiser. For example, in July 2005, a Forest Service review appraiser approved an appraisal for an access easement near the Cibola National Forest in New Mexico, but did not require the contract appraiser to produce a complete appraisal. In valuing easements, appraisers are to use a method known as a "before and after appraisal," which is an appraisal of a property's value before and after the easement—thus setting the price of the easement equal to the difference. However, the contract appraiser did not complete the "after" appraisal; instead, he simply deducted 90 percent of the property's value where the access road was to be placed. According to the evaluation performed by the compliance inspection team in September 2005, the 90-percent figure was not supported by market data. As a result, the

compliance inspection team rescinded the appraisal and determined that it could not be used as the basis for making an offer of compensation to the landowner.

The Forest Service's compliance inspection program has also served as a valuable tool in identifying appraisal-staff training needs and ensuring that staff have the proper skills to perform appraisals of complicated land transactions. Specifically, while performing a compliance inspection at the Forest Service's Pacific Northwest Region, the Chief Appraiser and team found that two senior review appraisers approved appraisals with technical deficiencies. As a result, the Chief Appraiser required these two senior review appraisers to take appraisal review courses offered by one of the Appraisal Foundation's sponsoring organizations.

Finally, we found problems with ASD's Pacific Region's appraisal document retention practices. Appraisal documents must be retained to verify—if challenged—that appraisers and review appraisers are independent and, thus, qualified to approve an appraised value for Interior's use in land transactions. Specifically, the Uniform Standards of Professional Appraisal Practice requires an appraiser to retain appraisals and related documents for at least 5 years after preparation or at least 2 years after the final disposition of any judicial proceeding, whichever period expires last. Moreover, ASD's Appraisal Policy Manual requires ASD to maintain their appraisal documents for at least 7 years after preparation. However, in addition to the 324 appraisals our appraisal experts evaluated, appraisers in ASD's Pacific Region could not locate nearly two-thirds, or 96 of the 150 appraisal reports, we requested for evaluation of compliance with recognized appraisal standards—each of which was well within the document retention time frames set by ASD and the Uniform Standards of Professional Appraisal Practice. The Regional Appraiser stated that the 96 appraisal reports were lost when appraisers were moved from the land management agency workspaces into ASD workspaces. Because our appraisal experts were unable to evaluate these 96 appraisals, we could not verify whether they met recognized appraisal standards.

ASD's Client Relationships Are Hampered by Inefficient Operations

Although ASD is a service organization, its service delivery and client relationships are hampered by operational inefficiencies. For instance, ASD does not have a system for establishing realistic time frames for client appraisal requests for which it can be held accountable. Specifically, it lacks (1) a process for ensuring that appraisal services are delivered within negotiated time frames, (2) a system for prioritizing on-going projects and incorporating new appraisal requests, and (3) clearly defined roles delineating information-collection responsibilities between it and its client agencies. In addition, ASD's operations are hampered by delays in appraisal contracting and billing practices, difficulty in finding qualified contract appraisers, and costly appraisals for low-value land. Collectively, these conditions contribute to delays in meeting client needs, which negatively affects ASD's clients' ability to complete land transactions, as well as adding unnecessary costs to the appraisal process.

ASD Does Not Have a System to Ensure that Realistic Time Frames for Appraisals Are Met

ASD does not have a system for ensuring that it meets realistic time frames for client appraisal needs. Specifically, ASD's accountability to its clients for providing timely appraisal service is impaired by the lack of (1) negotiated time frames for appraisal delivery, (2) a system for prioritizing on-going projects and incorporating new appraisal requests, and (3) clear responsibilities for ASD appraisers and land management realty specialists in obtaining critical appraisal information. Timely delivery of appraisals, by ASD to its client agencies, is critical to the success of Interior's land management agencies in carrying out their land acquisition objectives. Lengthy delays in appraisal delivery can cause land management agencies to lose land deals and associated funding; they also have a marked effect on landowners' trust in the land management agency and the land transaction process. This trust, according to agency realty specialists, is critical for the successful purchase of privately held land. If landowners perceive that trust has been violated, they may turn to the private sector to sell their land. Furthermore, the efficiency of the appraisal delivery process was an important consideration when Interior decided to consolidate appraisal services into ASD in 2003—in a September 2003 letter defending the consolidation effort, Interior's Assistant Secretary for Policy, Management, and Budget assured the House Committee on Appropriations' Subcommittee on Interior, Environment, and Related Agencies that, over time, the efficiency of appraisal services would be improved as a result of consolidation.

ASD Does Not Negotiate Appraisal Delivery Time Frames with Clients

In setting up ASD and forging its working relationships with the land management agencies it serves, Interior required both ASD and its client agencies to sign agreements—called Service Level Agreements—which

define parameters for appraisal (i.e., service) delivery, including time frames for the completion of appraisals and appraisal reviews. However, these agreements are limited in their effectiveness because time frames—specifically, appraisal delivery dates—are arbitrarily set by the clients, and ASD is not held accountable for meeting them. For instance, although the agreements call for appraisal delivery on the basis of agreed-upon time frames, which are meant to reflect both the needs of the client agencies and the appraisal workload of ASD, we found that ASD and the client agencies do not have a method for negotiating and agreeing on such time frames. Instead, client realty specialists enter a requested completion date for an appraisal into ARRTS. ASD appraisers, upon receipt of a request, estimate a projected completion date for the appraisal, which they enter into ARRTS. However, the dates entered by the client realty specialist and the ASD appraiser often differ and are not reconciled. Realty specialists from all four land management agencies that ASD serves told us that ASD appraisers regularly set appraisal completion dates that are weeks or months later than the original requested date, often without notifying the requesting realty specialist.

Furthermore, realty specialists do not routinely access ARRTS to identify project completion dates entered by ASD appraisers so as to take follow-up actions to reconcile any differences. Of the 728 appraisal products that clients requested from October 2005 through May 2006, more than 40 percent had a projected completion date later than the requested completion date,⁹ with an average difference of more than 60 days. On the other hand, ASD appraisers told us that realty specialists often request unreasonably short time frames, so they have to set projected completion dates later than the original request. According to these appraisers, appraisals take at least 60 to 90 days to be completed, and many complex appraisals take much longer. However, since October 2004, realty specialists have set requested delivery dates of less than 60 days for 515 appraisals. For example, according to ASD, between August 18, 2006 and August 31, 2006, ASD received six ARRTS appraisal requests with requested due dates that were within six days of the request. One of these was for a relatively complex appraisal and another was received with a requested delivery date for the day after the request. ASD acknowledges that it along with its client bureaus need to develop mutually realistic expectations for appraisal delivery time frames.

⁹Similar data for fiscal year 2005 is not available due to a limitation in the ARRTS data system at that time.

ASD policy requires ASD appraisers to keep realty specialists updated when unforeseen problems might affect timely delivery of an appraisal. Realty specialists with each of the land management agencies, however, told us that ASD appraisers are not keeping them informed of appraisal progress—particularly when unforeseen impediments to appraisal delivery occur, such as delays in obtaining contract appraisers. These officials described many specific cases where delays during the appraisal process went unreported until they requested that ASD provide a progress update. The delays often affected project completion by weeks or months and, according to land management agency realty officials, may have contributed to the loss of some land acquisitions and exchanges, as in the following examples:

- A FWS realty specialist submitted an appraisal request in August 2003 for the potential acquisition of 893 acres in Tallahatchie National Wildlife Refuge in north-central Mississippi. ASD received an initial contract appraisal in November 2003, but did not begin the review until February 2004. When that appraisal was rejected, ASD ordered another appraisal, which was delivered in October of 2004, and subsequently rejected. An ASD appraiser then completed the appraisal in-house in April 2005—20 months after the appraisal request and 12 months after the requested completion date. The landowner rejected the appraised amount offered and informed FWS that she thought it had lost interest in acquiring the land, since so much time had elapsed since the appraisal was requested.
- An NPS realty specialist submitted an appraisal request in November 2004 for the purpose of acquiring 8 acres in the Indiana Dunes National Lakeshore in northern Indiana. NPS requested ASD to provide a status update on January 31, 2005, on the appraisal request after not having received an update since December 15, 2004. ASD did not respond to NPS until March 2, 2005, after being informed by the realty official that the land owner (1) was unhappy, (2) believed that ASD had been “stonewalling and lying” to him all along, and (3) was threatening to call his congressman. In response to NPS, ASD officials said that the appraisal request “fell through the cracks” and that the appraiser would start the work on it immediately. At that time, the contract appraiser had not begun the appraisal. An appraisal contract was awarded in April 2005 and completed on October 20, 2005, almost a full year after the initial appraisal request. According to the NPS realty specialist assigned to the case, the landowner was angered by the lengthy delay in getting him the offer and thus declined to sell the property to NPS.
- In May 2004, a FWS realty specialist requested the appraisal of a 40-acre parcel in Upper Ouachita National Wildlife Refuge in Louisiana. ASD later

informed FWS that it did not immediately act upon the request because the request was overlooked and, as a result, it was scheduled to be awarded in February 2005. The realty specialist requested a status update in June 2005; however, at that time, ASD informed FWS that it was unsure if the contract had yet been awarded. In September 2005, a contractor appraisal was rejected for agency use. In January 2006, an ASD appraiser took over the project as an in-house appraisal assignment. The completed in-house appraisal was finally approved on February 16, 2006—21 months after the initial request. Because of the substantial delay, the landowner rejected the offer to purchase his land.

According to realty specialists in the land management agencies and officials at nonprofit partners, they need reliable estimates of appraisal delivery time frames to plan the use of land acquisition funds. The officials said that without knowledge of when appraisals will be obtained, and without a say in setting delivery dates, agencies' ability to request and use acquisition funds is compromised. For instance, NPS-Midwest realty specialists told us they were unable to use more than \$800,000 from their land acquisition budget for fiscal year 2005 because of land deals that were not finalized. These officials stated that, had certain appraisals been completed by the requested completion date, it is likely that at least a portion of this money would have been spent on the acquisitions. In addition, without accurate knowledge of the expected date for appraisal completion, realty specialists told us they cannot keep willing buyers or sellers up-to-date on project status; also, they may unintentionally provide these parties with inaccurate estimates of appraisal completion, thus harming the relationship between the government and the willing buyers and sellers.

According to realty specialists in the land management agencies and officials at nonprofit partners, appraisal delays also strain Interior's relationship with nonprofit conservation partners. These partners play a critical role in initiating and facilitating many land transactions between landholders and Interior's land management agencies. Nonprofit conservation partners leverage resources to purchase land from private sources, later to be sold to the government when funds are available. However, some partners have been negatively affected by unpredictable and oft-delayed appraisals. According to officials at two nonprofit partners with whom we spoke, their ability to secure land deals—much like the land management agencies—depends on landowners trusting their operations. They said that when an appraisal is significantly delayed, the nonprofit's funds are locked up in deals that are on hold while awaiting the completion of the appraisal. The officials said that if the appraisal results

ASD Does Not Have a System for Prioritizing On-Going Projects and Incorporating New Appraisal Requests

were delivered in a timelier fashion, they would know sooner whether the land owner will accept it and, if not, they could free up their funds sooner to assist land management agencies with other conservation projects.

ASD also does not have a system for prioritizing on-going projects and incorporating new appraisal requests from its clients so as to adjust its workload when client needs change. As a result, ASD has no assurance that the most immediate appraisal needs of its client land management agencies are being met. The ARRTS database allows the requesting realty specialist to assign a priority label to each appraisal request (e.g., emergency, high priority, routine, or low priority). However, ARRTS does not allow ASD managers to determine the relative priority of new appraisal requests compared to those already in the system, nor does it provide a mechanism for reestablishing priorities. Further, ASD has no procedures for weighing each of its client agencies' respective appraisal request priorities. Realty specialists and ASD appraisers told us that, as a result, routine appraisals often get labeled as high priority—a practice that one ASD appraiser dubbed “priority inflation.” For appraisal products requested in fiscal year 2005, for example, over 40 percent were labeled as “emergency” or “high” priority. Consequently, there is little meaning to current priorities labeled in ARRTS for the appraisal requests, and there is a risk that some high-priority appraisal projects are not performed as rapidly as necessary.

On April 20, 2005, a FWS realty specialist asked ASD to perform a “high priority” appraisal for a 2.4-acre parcel of land in Washington County, Nebraska; the requested completion date was June 6, 2005. In late June, the realty specialist requested that ASD provide a status update, and was told that the appraisal contract had not yet been awarded. Furthermore, the realty specialist was told that ASD had placed a completion date of January 20, 2006, into ARRTS. The FWS Regional Realty Chief expressed concern in an October 5, 2005, e-mail to the ASD official concerning (1) the arbitrariness of the completion date set by ASD, (2) ASD’s delay in requesting additional information from the realty specialists prior to beginning the appraisal project, and (3) ASD’s lack of communication with FWS on the revised delivery date and need for additional information. In response to these concerns, the ASD-Midwest Regional Appraiser said that a backlog of appraisal requests contributed to the delay in initiating the project. ASD completed this appraisal on December 20, 2005—1 month ahead of its estimated completion date but nearly 7 months later than the date that it was initially requested. According to the FWS realty specialist, the landowner turned down the offer and accepted a 24-percent higher offer from a private buyer.

ASD and the land management realty staffs generally do not collaborate in prioritizing appraisal needs. Instead, the prioritization of each appraisal request is determined on an ad hoc basis by ASD's appraisers. According to land management agency realty specialists, ASD officials seem to ignore the priorities and dates placed on the appraisal request by the realty specialists and, instead, revise the priority and completion dates arbitrarily. Some realty specialists said that they have resorted to calling their ASD regional appraiser to request that an appraisal is given high priority, but this approach has had little success. ASD regional appraisers acknowledged that their appraisal staff cannot always address these high-priority requests because they already have a heavy workload of such requests.

Since the use of the ARRTS system has not been effective in establishing appraisal priorities, some officials have taken other measures to address this issue. For example, since the formation of ASD, the Midwest Region's Regional Appraiser meets with FWS realty managers within the region on a monthly basis to discuss pending appraisals, as well as upcoming appraisal requests. These discussions direct changes in appraisal project priority and facilitate status updates of ongoing appraisal projects. According to one FWS regional realty official, these meetings are extremely helpful for planning purposes. For example, when appraisals need to be done quickly, these meetings provide a venue to discuss how the timelines of other projects might be affected by the higher-priority project. The ASD-Midwest Regional Appraiser told us that she meets similarly with NPS realty officials on a monthly basis.

Similarly, the ASD Southwest Region's lead appraiser in Nevada told us that he provides a status update on outstanding appraisal projects to his client realty specialists on a monthly basis. According to him, this status update is a great help for successfully prioritizing appraisal projects between the land management agencies and encourages communication between ASD and the realty specialists it serves. The appraiser also told us that rearranging appraisal priorities through this process is quite common. For instance, at the Stillwater National Wildlife Refuge in northern Nevada, the FWS is actively interested in purchasing water rights. Therefore, when land with water rights becomes available, appraisals of these lands are moved to a higher-priority status over other appraisals.

Although the consolidation of appraisal services into ASD only applied to Interior agencies, we discussed appraisal services with USDA's Forest Service to ascertain whether the Forest Service had implemented processes that would assist ASD in implementing its program. With regard

to prioritization of appraisal requests, the appraisal services staff of the Forest Service has had success using quarterly meetings and teleconferences to: coordinate time frames for appraisal requests and completion dates, prioritize new requests, and update the status of appraisals in progress. In addition, the Forest Service appraisal services staff supplies monthly or quarterly status updates to its clients, line officers, and realty specialists. The Forest Service's Chief Appraiser said that this system works well, and there are few problems or complaints about appraisal prioritization or the timeliness of appraisal delivery. While this may be successful for the Forest Service, ASD faces additional challenges because it has four equally important clients with potentially conflicting priorities.

ASD Lacks Clearly Defined Roles Delineating Information-Collection Responsibilities between It and Its Client Agencies

ASD has not defined the responsibilities for ASD appraisers and realty specialists involved in the appraisal process, particularly with respect to specifying who has responsibility to gather the information needed to complete an appraisal. Significant "up-front" information, including such data as maps, property descriptions, aerial photographs, land deeds, title information, and sales histories are needed before conducting an appraisal. The Service Level Agreements between ASD and the client agencies state that the client agency is responsible for providing "clear, specific information on project needs for appraisal services," primarily through ARRTS, but also by other means (as necessary). However, there is no definition of what this "specific information" should entail. Further, these agreements do not specify how much should be provided and by whom. According to FWS realty officials, this creates considerable confusion because information needs can vary quite significantly, depending on the complexity of the appraisal. Additionally, FWS stated that ASD requires the best information available, but does not define what this entails.

Realty specialists and ASD appraisers with whom we spoke disagreed over who should have responsibility for obtaining and providing appraisal information. Part of this disagreement stems from the different responsibilities that existed among the agencies' realty specialists and appraisers prior to the formation of ASD. For instance, one FWS realty specialist stated that, prior to the formation of ASD, appraisers were responsible for much of the information-gathering; the information obtained and provided by realty specialists was minimal. On the other hand, appraisers formerly with BLM told us that, before the formation of ASD, realty specialists routinely acquired most of the information before giving it to appraisers. The lack of clarity in the Service Level Agreements

with regard to who is to gather the needed information for the appraisal has led to delays in starting and completing appraisals. For example:

- A FWS realty specialist submitted a request to ASD on November 22, 2005, for an appraisal of an approximately 1,000-acre tract in the Trinity River National Wildlife Refuge near Liberty, Texas. However, the FWS official did not provide sufficient information for the ASD appraiser to prepare the scope of work needed to request a cost estimate from contract appraisers. The ASD appraiser notified the requesting FWS realty specialist on December 9, 2005, that, to do the request for a cost estimate, he needed a map of the property boundary, a legal description of the land to be appraised, land title information, aerial photographs, and topographic maps for use in assessing the land's timber inventory. The FWS realty specialist provided the ASD appraiser the title information, information on an easement on the property, and an aerial photo, on March 8, 2006. The ASD appraiser replied to the FWS realty specialist on March 21, 2006, outlining what information remained outstanding. The realty specialist did not reply to ASD's request and, as a result, ASD cancelled the appraisal request.
- A FWS realty specialist submitted a high-priority request to ASD on May 19, 2006, for the preparation of a statement of work. The statement of work would be used by a nonprofit partner to solicit contractor bids for the appraisal of a 405-acre tract in Balcones Canyonlands National Wildlife Refuge near Austin, Texas. However, the FWS realty specialist did not provide sufficient information for the ASD appraiser to prepare a statement of work for the contractor bidding. The ASD appraiser notified the requesting realty specialist on June 6, 2006, that he needed land title information, details of an access easement on the property, a legal description of the land to be appraised, and information on improvements to the land. As of the issuance of this report, the ASD appraiser had not received the requested information.

Realty specialists from the land management agencies informed us that ASD appraisers often require the "perfect package" of material before they will begin work on a project and that, in some cases, the correspondence requesting and providing information can go back-and-forth for weeks. ASD appraisers, on the other hand, told us that, depending on the specific circumstances involved, certain information is absolutely necessary before appraisers can begin an appraisal. For instance, in the case where an appraisal will be contracted out, ASD appraisers said they require a full package of information—including maps, property descriptions, aerial photographs, land deeds, title information, and sales histories—before a statement of work can be correctly developed for bid solicitations. Some

ASD appraisers commented that realty specialists should receive training on the appraisal process and information requirements, so that they can better understand the challenges faced by the appraisers.

Certain Business Practices Impede the Efficiency of ASD's Appraisal Delivery, Resulting in Delays and Costs

Certain business practices affect the efficiency of ASD's appraisal delivery. Specifically, ASD is hampered by delays in appraisal contracting and billing practices, difficulty in finding contract appraisers with government experience, and costly appraisals for low-value land. As a result, ASD's operations are more time-consuming and costly than necessary.

Contract and Billing Functions Add Inefficiencies to ASD Operations

Both the contract and the billing functions result in additional costs and contribute to appraisal delays. ASD currently contracts out approximately 70 percent of its appraisal requests, which requires the services of the National Business Center's Southwest Branch (for awarding contracts) and the Office of Budget and Finance (for paying contractors). In fiscal year 2006, data provided by National Business Center budget officials showed that the contracting and billing functions incurred approximately \$350,000 in expenses, or about 3 percent of ASD's budget. While the costs of these services were borne by the land management agencies prior to ASD's inception, the agencies did not have data identifying these costs. Further, ASD appraisers believe the contract and billing functions would be more efficient if they were handled within the land management agencies. They also said that implementing the responsibility for receiving bids and awarding contracts at the Southwest Branch, as well as paying contractors through the Office of Budget and Finance, has resulted in considerable delays in the appraisal process and significant frustration from both the client-agency realty specialists and ASD appraisers. Specifically, we found the following:

- *Longer turn-around time for contract award:* According to officials at the Southwest Branch, awarding contracts after the proposals have been received should take, on average, about 3 to 5 business days. On the basis of data provided by ASD Regional Appraisers, however, we determined that it has taken an average of about 10 business days to award contracts—and fewer than one-third of the contracts have been awarded in 5 days or less since the Southwest Branch assumed this responsibility.¹⁰ According to officials at the Southwest Branch, these delays largely

¹⁰Officials at the Southwest Branch did not supply comprehensive data in this regard, despite our request.

resulted from significant turnover of staff with contracting experience and the inexperience of remaining staff.

- *Cancellation of expedited contracting practices:* Prior to the formation of ASD, agency contracting officers regularly employed “indefinite delivery/indefinite quantity” contracts and “blanket-purchase agreements,” which are designed to expedite the contracting process by establishing multi-year agreements with private appraisers who become pre-approved for appraisal work conducted within the time frame of their agreements. These contracting practices expedite the process and can save time and resources. Southwest Branch officials, however, canceled more than 100 pre-existing indefinite delivery/indefinite quantity contracts and blanket-purchase agreements when they assumed the contracting function. National Business Center officials at the Southwest Branch told us that they cancelled these contracts and agreements because the procurement systems of each of the agencies were not compatible with the Southwest Branch’s procurement system, and it became easier to cancel them as opposed to redoing them to make them compatible. The National Business Center told us that these contracts were canceled because of a lack of justification to continue their use.
- *Appraisal contracts awarded based on “lowest bid” rather than “best value”:* ASD appraisers recommend contract appraisers based on “best value to the government” considerations, but Southwest Branch officials routinely award contracts using “lowest bid” criteria. Under the “best value” consideration, bids are evaluated on a range of criteria in addition to price—including past performance, quality of appraisals, familiarity with the area the land is located in, and the type of land to be appraised. According to ASD regional appraisers, National Business Center officials informed them in 2004 that the Southwest Branch would evaluate contract proposals based on “best value” considerations.¹¹ Officials at the Southwest Branch told us that they do not usually do this because ASD appraisers do not correctly solicit proposals for “best value” consideration. ASD officials, on the other hand, said they have not received any information from Southwest Branch officials on how to

¹¹The Uniform Appraisal Standards for Federal Land Acquisitions states that it is “important to obtain the contract services of the best qualified appraisers available within the agencies’ rules governing the contracting process. While price is certainly a consideration, more important factors are general appraisal experience, education, professional reputation, experience in conducting appraisals for federal land acquisitions under these standards...and demonstrated competency.”

“correctly” solicit.¹² As a result, according to officials at the Southwest Branch, in the first year of operation, all contracts were awarded based on lowest price because the solicitation from ASD—when sent out to the contractors—did not properly specify that the contract would be awarded based on “best value” considerations. This decision can have major ramifications for the timeliness and cost of an appraisal. For instance, in one case the lowest bid was \$200 less than the second lowest bid, and the ASD appraiser recommended the contractor with the slightly higher bid—based on past experience with ASD and familiarity with the land and property type. However, officials at the Southwest Branch awarded the contract to the low-bid contractor. The delivered appraisal was deemed unacceptable for agency use due to insufficient comparable sales data. After a 7 month delay, the appraisal was successfully completed.

- *Inefficient contractor billing and reimbursement functions:* The process currently used to bill client agencies for contract appraisal services has caused confusion and frustration within the land management agencies. According to ASD officials and realty officials with each of the land management agencies, problems included (1) being billed in one lump sum at the end of the fiscal year, (2) the inability to track reimbursement requests back to contractor invoices, and (3) double-billing for some contracts. These officials complained about the burdensome and arduous process of reconciling the reimbursement billing with the contractor invoices—a necessity to ensure that funds were not inappropriately spent. In addition, there have been problems with the land management agencies obligating sufficient funds to allow for reimbursement payments to go to the National Business Center in a timely manner. Realty officials with BLM, FWS, and NPS also stated that it would be more efficient if their agencies handled the billing directly. For example, if billing for contract appraisals came directly from the land management agencies, there would be no need to obligate funds for reimbursement or tracking of appraisal costs, and linking such costs to specific appraisals would be done within internal systems.

Over the past 6 months, in response to concerns over the contracting and billing functions outlined above, ASD and the National Business Center undertook a comprehensive reengineering of the contract appraisal and billing processes. Under this reengineered plan, the contracting function

¹²Under “best value” considerations, agencies take into account other factors in addition to price in awarding a contract, including the quality of the services offered and the bidder’s prior performance

would be moved to GovWorks in its Herndon, Virginia office.¹³ The invoicing and billing function would be transferred to GovWorks' electronic invoicing system. The reengineered plan is intended to address all relevant issues that have been brought to the attention of ASD and the National Business Center over the period in which the National Business Center has been supporting ASD's operations, including the use of "indefinite delivery/indefinite quantity" contracts, the use of "best value" contract award criteria, and the series of issues surrounding contractor payment and agency reimbursement. According to officials with the National Business Center, a July 2006 meeting with ASD officials resulted in an agreement to move the contracting function to GovWorks beginning October 1, 2006. Under the reengineered plan, each contract service provided by GovWorks will be assessed up to a 4-percent fee depending on the cost of the contract. Although these officials offered assurances that moving the contracting function to GovWorks will address concerns about the timeliness of awarding appraisal contracts, contractor payments, and agency reimbursements, we cannot assess the effectiveness of a future change.

Regardless of whether the change in the contracting function will be successful, however, ASD appraisers generally believe that this function would be more efficient if it were handled within the land management agencies. Many of the ASD Regional Appraisers, along with realty specialists within the land management agencies, told us that placing the contracting function within the land management agencies, as it was previously done, would not threaten the integrity of the appraisal process. These officials also believe that having the contracting function in each of the agencies would facilitate closer contact and better communication between ASD appraisers and the contracting officers, likely resulting in less confusion and easier status updates. ASD officials also said that, currently, staff at the Southwest Branch contracting office have little incentive to provide services in a timely manner because ASD has no choice but to use its services. Of note, this would not change under the current plan to relocate the appraisal contracting function to Virginia. According to agency realty specialists, contracting officers within the agencies regularly awarded contracts in a much timelier manner than the Southwest Branch. These officials said that this was due, in part, to the ease by which they could communicate the need for expedited awards and

¹³GovWorks is a fee-for-service organization that delivers regulation-compliant contract administration and support. It joined Interior's National Business Center in October 2005.

ASD Faces Challenges Finding Contract Appraisers with Federal Government Appraisal Experience

changing priorities with the contracting function located in-house. Also, because they were part of the same organization and had a stake in its land acquisition goals, the contracting officers had an incentive to be responsive to realty specialists' appraisal contract needs.

ASD faces difficulty obtaining contract appraisers with federal government appraisal experience, which contributes to delayed and costly appraisals. According to ASD's Deputy Chief Appraiser and ASD Regional Appraisers, each of ASD's regions have experienced problems, to varying degrees, in obtaining contract appraisers with federal experience. ASD has a workforce of 68 appraisers nationwide and it receives about 1,800 appraisal requests for appraisal products per year from its clients. To address its workload demands, which include both conducting and reviewing appraisals, ASD uses private contractors for many of its appraisals. During fiscal year 2005, ASD contracted out about 70 percent of the appraisal requests to private contract appraisers. However, ASD headquarters and regional officials told us that many private contract appraisers are unwilling to do business with the federal government because their appraisals must meet standards that are higher than what they are accustomed to. Additionally, they face unique circumstances that make it more challenging to conduct the appraisals. For example, most private appraisers are most familiar with appraising commercial or residential properties, but the locations of lands to be appraised for Interior agencies are often in remote, rural areas—making it more difficult to access, as well as identify, comparable land sales. One ASD regional appraiser stated that her office has attempted to find contract appraisers with federal experience, but it has had extreme difficulty finding contractors who can perform appraisals in accordance with government standards. This regional appraiser also stated that her office must sometimes use appraisers who do not have prior work experience with the government and with whom ASD has no previous working relationship. As one ASD Regional appraiser stated, each land transaction is important, and if a contractor fails to deliver an acceptable appraisal, ASD will experience significant delays in completing the appraisal.

ASD takes substantial risks when it has to use contract appraisers without prior experience doing appraisals for Interior. We found the following examples:

- A BLM realty specialist submitted a request for a high-priority appraisal on July 12, 2005, for nearly 3,800 acres near Kremmling, Colorado. The Southwest Branch awarded the appraisal contract on August 12, 2005, in the amount of \$13,500 to an appraiser who, according to ASD officials, had

little experience working with ASD or the land management agencies. The contract had an appraisal completion date on or before October 14, 2005. After granting the contractor two extensions, ASD received the draft appraisal from the contractor on January 13, 2006, but, upon review, ASD found it to have a number of serious flaws, including problems with the appraiser's highest and best use determination and property rights analysis. As a result, the ASD reviewer determined that the appraisal needed substantial revision, and on March 14, 2006, sought clarification and corrections from the contract appraiser. Three days later, on March 17, the contractor notified ASD that he would be withdrawing from the project. ASD decided to complete the appraisal in-house and, on March 24, 2006, assigned one of its appraisers to perform the remaining work. As of July 5, 2006, the staff appraiser was still working to complete the appraisal.

- An NPS realty specialist submitted a high-priority appraisal request on June 10, 2005, for 119 acres in Chickamauga and Chattanooga National Military Park near Chattanooga, Tennessee. The Southwest Branch awarded the appraisal contract to an appraiser with no prior federal land appraisal experience on October 25, 2005. ASD received a draft appraisal on November 5, 2005. ASD rejected this appraisal on the basis that it was a “nonsupported appraisal report of technical incompetence.” ASD subsequently assigned the appraisal to an in-house appraiser on April 14, 2006. As of July 5, 2006, the appraisal has yet to be completed—more than 13 months after it was initially requested.
- A FWS realty specialist submitted an appraisal request in August 2003 for 33 acres in Panther Swamp National Wildlife Refuge in west-central Mississippi. After receiving the contract appraisal in November 2003, the ASD reviewer worked with the contract appraiser to try to clear up problems with the appraisal, but the appraisal was ultimately rejected in August 2004. A second contract appraisal was ordered, received in February 2005, and subsequently rejected in May 2005. A third appraisal was then ordered, received, and ultimately approved in April 2006, 32 months after the initial appraisal request.

Complicating contractor selection, many contract appraisers are not located in close proximity to the lands needing appraisal. As a result, realty officials and ASD regional appraisers said that contractors (many of which are not located in the same state where the property is located) include the cost of traveling to work locations in their estimate. According to an experienced realty specialist familiar with these types of contracts, appraisals performed by out-of-state contractors often cost more than \$10,000, compared to less than \$1,000 per appraisal when local appraisers

might sometimes be used. ASD officials, in response, said that the more costly appraisals may be due to the fact that the appraisals did not meet standards, which necessitated additional work—though they did concede that travel costs are higher when local appraisers are not used. ASD also commented that appraiser fees are also based on business requirements including such things as direct and indirect costs, the complexity of the appraisal problem, the time required to develop and report a credible value opinion, and other issues. ASD’s Chief Appraiser and Deputy Chief Appraiser are aware of the difficulties in finding contract appraisers and has taken steps to help remedy the problem. These steps include meeting with appraisal organizations, such as the American Society of Farm Managers and Rural Appraisers,¹⁴ to see how ASD can work with the organization to increase the number of contract appraisers willing to contract with the government. In addition, one ASD Regional Appraiser hosted an open house and training/information sessions with local appraisers who expressed interest in doing business with the government, in hopes that his region can find a wider range of private appraisers capable of meeting federal appraisal standards. The ASD Deputy Chief Appraiser told us that he hopes to expand the use of these types of interactions with private appraisal contractors. He believes that if private contract appraisers better understand the policies and requirements of ASD, and about how ASD functions, they will be more willing to offer their services.

ASD Appraises Lands That Yield Little Revenues in Comparison to the Costs of Performing the Appraisals

ASD performs appraisals for lands that yield little revenue to the government when compared to the costs of doing the appraisal. For example, ASD appraisers routinely perform appraisals to calculate rent payments for private uses of public lands. These include short-term uses requiring a permit, and leases for oil and gas production infrastructure, water wells, and storage tanks, among other things. Appraisals for these uses are expensive to conduct and, for the most part, bring in very low rental revenues to ASD. From June 2005 through May 2006, appraisers completed 270 of these appraisals. More than half of these appraisals estimated land rents to be less than \$1,000 per year. In some cases, when ASD performed an appraisal, the appraisal cost more than the revenue received by the agency for the land—especially when the appraiser visited the site. For example, an appraisal completed in May 2006 for the use of four access roads to a reservoir and water pumping station cost

¹⁴The American Society of Farm Managers and Rural Appraisers is dedicated to maintaining a professional group of farm managers, rural appraisers, and review appraisers.

approximately \$17,000 for the appraiser's time and travel. The appraised value was \$13,777 for a 10-year lease of these rights. In other cases, less costly alternatives exist. ASD appraisers can, in some instances, undertake less time-consuming and less costly appraisals by appraising multiple parcels at once. These appraisals are less time-consuming and less costly than a full appraisal—often, they do not require the appraiser to visit the site—but each appraisal must still go through the ARRTS process and associated paperwork.

Land management agencies' policies for some rights-of-way require appraisals for some of these transactions to be performed by ASD, while in other cases the agencies can use an administrative formula—in lieu of an appraisal—developed and designed for the purpose of simplifying the calculation.¹⁵ The formula uses market analysis of real estate transactions and helps determine rental payments for non-communications land uses, such as water wells and reservoirs, and oil well pads. BLM had implemented guidance allowing its offices to use similar rental schedules for communications uses (e.g., cell phone towers) and linear rights-of-way (e.g., power lines) that are formula-based for determining land values in lieu of a full land appraisal. BLM's Idaho State office recently developed a formula, to be used in lieu of appraisals, for land valuations expected to be under \$10,000. According to BLM officials, the formulas yield quicker valuation results at less cost compared to the results and costs of performing a full appraisal. The formulas are used by BLM, so ASD appraisers do not have to be involved. According to ASD officials, the expanded use of formulas for low-value land transactions would avoid the cost and time associated with using ASD appraisers to conduct appraisals for these transactions.¹⁶

¹⁵The Uniform Appraisal Standards for Federal Land Acquisitions allows for low land valuations to be completed through an alternative method of valuation, such as an administrative formula.

¹⁶FWS and NPS do not use similar schedules because they have so few cases of such land use by private entities, according to officials with these agencies. Instead, they rely solely on appraisals conducted by ASD. Reclamation's land management policies currently call for full land appraisals to be used to calculate lease payments.

Interior Lacks Oversight of Appraisals under Some of Its Grant-in-Aid Programs

Interior lacks independent oversight of appraisals for land acquisitions under some of its grant-in-aid programs—specifically, those administered by FWS and NPS—because when ASD was formed, it was not assigned responsibility for appraisals of land acquired under these programs. Interior’s grant-in-aid programs, for example, provide nonfederal agencies, such as state and local governments, with federal funds to acquire land—typically for the purposes of conserving critical wildlife habitat. As ASD was being formed, Interior officials did not place appraisals for these transactions under ASD’s purview because grant-in-aid programs were separate from agencies’ realty functions. Instead, this authority remained with the land management agencies, where the nonfederal grant recipient is responsible for obtaining an appraisal, which may or may not be reviewed by the grantor agency. In fiscal year 2005, Interior expended over \$240 million in appropriated funds for land acquisitions by nonfederal agencies, of which nearly \$140 million (or about 60 percent) was under nine FWS and NPS grant-in-aid programs. However, eight of the nine grant-in-aid programs, representing nearly \$135 million of the approximately \$140 million, do not require independent federal review of grant recipients’ appraisals.¹⁷ As we reported earlier, it was the lack of required independent review for land management agencies’ appraisals that led to the creation of ASD. Table 2 shows the nine grant-in-aid programs we reviewed and, of these, which programs require independent federal appraisal review.

¹⁷While federal regulations generally require a person acquiring land with federal assistance to have an appraisal review process, many acquisitions under grant-in-aid programs qualify for exceptions to the regulations.

Table 2: Independent Federal Review Requirements for Interior’s Grant-in-Aid Programs

Grant-in-aid program	Requirement for federal review
FWS Cooperative Endangered Species Conservation Fund Grants – Habitat Conservation Plan Land Acquisition	No
FWS Cooperative Endangered Species Conservation Fund Grants – Recovery Land Acquisition Grants	No
FWS Landowner Incentive Program	No
FWS North American Wetlands Conservation Act – Standard Grants	No
FWS North American Wetlands Conservation Act – Small Grants	No
FWS State Wildlife Grants Program	No
NPS American Battlefield Protection Program	Yes
NPS Land and Water Conservation Fund State Assistance Program	No
NPS Shenandoah Valley Battlefields Foundation	No

Source: GAO analysis of FWS and NPS grant-in-aid policies.

The requirement for federal review for the NPS American Battlefield Protection program identified in table 2 is found in the guidance provided by NPS to the grant applicant. This guidance requires grant recipients to have land appraisals reviewed by the federal government. The grant manager responsible for administering this program said that he requires federal review because he recognizes the value of obtaining an independent “check” to ensure that they do not offer more or less than market value.

While there is no requirement for federal review for the other eight programs, grant managers for some of these programs occasionally seek ASD’s assistance on an ad hoc basis. For example, at three of seven FWS regions, federal assistance officials, who administer several FWS grant-in-aid programs listed above, seek ASD appraisal reviews for some or all of their appraisals. In FWS’ Northeast Region, for instance, the Division of Federal Assistance uses ASD’s appraisal review service for all of their acquisitions. The FWS federal assistance officials in the Great Lakes–Big Rivers Region seek ASD assistance for appraisal reviews of lands valued over \$1 million. Additionally, federal assistance officials in FWS’ Pacific Region state that they request that ASD review appraisals on a case-by-case basis, typically when a state-agency-grant recipient does not have an in-house review appraiser, or if the appraisal is complex or of a high dollar

value. In the other four FWS regions, however, ASD is not involved in the review of appraisals for grant-in-aid acquisitions.

Grant officials for some of these programs told us that ASD's inconsistent involvement is due to the working relationships, between grant and realty divisions, that existed prior to ASD's formation. According to FWS officials in the Great Lakes–Big Rivers and Pacific regions, prior to the formation of ASD, grant office and realty offices shared the costs of review appraisers. Following the transition to ASD, the Division of Federal Assistance grants offices in both regions continued to request assistance for some appraisal reviews. Furthermore, the NPS official who administers the Shenandoah Valley Battlefields Foundation grant program said that he asked NPS realty-division review appraisers to review appraisals for his program prior to ASD's formation, and he continued that policy after those review appraisers transferred to ASD. On the other hand, in FWS' Southwest Region, a grant official said there was no such relationship in the past between the realty office and the Federal Assistance Grants Office.

Federal review of appraisals provides some assurance that appraisals meet recognized standards to include independence, and that federal funds are being spent appropriately. The following examples illustrate the importance of federal review:

- In 2004, Travis County, Texas, received nearly \$6.5 million in FWS grant funds from the Endangered Species Conservation-Habitat Conservation Plan Land Acquisition program to purchase about 320 acres, which included habitat for the golden-cheeked warbler—an endangered bird. Under Texas state law, land designated as habitat preserve or endangered species habitat is to be appraised as if these designations were not in place, although some land uses—such as building roads or structures—may be prohibited on lands bearing these designations.¹⁸ Recognized appraisal standards require appraisers to consider the impact of land-use regulations on the utility and value of the land being appraised. The FWS Regional Director stated that he would accept the appraisal for Travis County if it followed state law. An ASD regional appraiser familiar with this case told us that he would not have approved this appraisal (if he was asked to review it) because it ignored a key legal characteristic, which would have substantially reduced the appraised value of the property.

¹⁸UASFLA D-6, see also USPAP Standard Rule 1-3(a).

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- In 2005, the Minnesota Department of Natural Resources received federal funds through the Federal Assistance State Wildlife grant program to acquire a 441-acre property in Minnesota—valued at about \$1.3 million. ASD was asked by the FWS grant office to review the appraisal, and upon its review found numerous technical errors. The ASD review appraiser concluded that the contract appraiser significantly overvalued the land because the appraiser, along with committing other technical errors, used five comparable sales with a different highest and best use as a basis for his value conclusions. Specifically, ASD found that all five comparables sales were maximally profitable as farmland; however, the property being appraised could not be used as farmland and, as a result, its highest and best use is recreation—primarily waterfowl hunting. In that region of Minnesota, since farmlands averaged over \$2,000 per acre and recreational land generally averaged half that amount, the appraiser’s estimate was too high. According to a federal assistance grant program official, the Minnesota Department of Natural Resources is having the property re-appraised.

ASD review could also help ensure that appraisals conducted by grant-in-aid recipients accurately estimate lands’ values. For example, under the Land and Water Conservation Fund State Assistance Program, NPS performs periodic program reviews of the state’s Land and Water Conservation Fund programs, which includes appraisals for land acquisitions funded, in part, by Land and Water Conservation Fund State Assistance grants. In 2005, as part of its periodic review, NPS asked ASD’s northwest office to help review a sample of appraisals prepared for the Oregon Parks and Recreation Department under NPS’s Land and Water Conservation Fund partnership program. ASD found deficiencies in each of the six appraisals it reviewed, including failures to (1) accurately identify the subject property, (2) explain the valuation approach, and (3) provide adequate sales histories. These deficiencies should have prompted the Oregon Parks and Recreation Department’s review appraiser to ask the contract appraiser for additional information to support the value conclusions. An ASD senior appraiser familiar with these appraisals told us that the appraisal review in each case was clearly inadequate.

In addition, the official who administers grants under NPS’s Shenandoah Valley Battlefields Foundation grant program uses ASD for independent federal review of all appraisals to ensure compliance with recognized standards. An ASD regional appraiser stated that his reviews of Shenandoah Valley Battlefields Foundation’s appraisals, like reviews of other appraisals, have uncovered minor technical and factual flaws that

were easily corrected, as well as major report weaknesses that resulted in ASD's rejection of appraisals.

Some grant officials believe that a federal review is not necessary to ensure independence and that their policies, which require grant recipients to use a state-licensed appraiser and review appraiser, are sufficient for assuring that market value is attained for the land transactions. However, an ASD regional appraiser told us that state certifications are not high enough and provide little assurance of adequate appraisal knowledge. One ASD regional appraiser said that, because the appraisal community is small in some regions, contract appraisers and reviewers hired by grant recipients often find themselves reviewing each others' work. He believes this is a potential threat to appraisal objectivity because, in order to continue receiving requests for appraisal assistance, appraisers have an incentive to approve each others' appraisals.

Interior has no clear policy on why some grant-in-aid programs require federal review of land appraisals while others do not. Secretarial Order 3258, issued in December 2004, outlines, among other things, ASD's role in reviewing appraisals prepared for nonfederal parties. This order directs ASD to review appraisals if, among other things, the nonfederal party consults with ASD on the scope of work and selection of contract appraiser prior to initiation of the appraisal. According to senior ASD officials, this requirement helps ensure that appraisals will meet appraisal standards. A Regional Appraiser told us, however, that the order does not define nonfederal parties and, therefore, it is not clear whether the order applies to grant recipients under the grant-in-aid programs. Furthermore, the order does not apply unless a nonfederal party consults with ASD. Two ASD Regional Appraisers with whom we spoke stated that official clarification on whether the order applies to grant recipients would be helpful. Moreover, since ASD is reviewing some appraisals under the grant programs, the officials are unsure whether doing so is consistent with the order.

Conclusions

Consolidating, into ASD, the appraisal functions that had previously been under the agencies' realty offices, appears to have been effective in remedying prior concerns about appraiser independence. With ASD now having these responsibilities, it needs to ensure that it is capable of upholding the public trust, assigned to it by law, in representing the federal taxpayer when appraising land for purchase, sale, and exchange. While ASD has made great strides in ensuring this, there is wide variation in appraisal quality for billions of dollars of potential land transactions.

Although many appraisals did not meet standards, it is uncertain whether the market value determinations would have changed as a result of re-doing the appraisals. However, given the reasons for the appraisals not meeting standards, many of the examples show that the outcome may have changed—which could have affected the amount that the federal government paid for a particular land transaction. A critical factor contributing to these appraisal quality differences is that existing federal representation in critical land transactions is often delegated to individuals who may not have (or may not apply) the necessary specialized appraisal skills; these delegations are approved by individuals who have considerable discretion in deciding how thoroughly appraisals should be reviewed. Without a standard set of appraisal characteristics and considerations evaluated in each appraisal review—such as detailed descriptions of comparable sales, justification for valuation procedures, and documentation of legal and physical characteristics—appraisals that did not meet standards have been approved for government use. Moreover, based on the compliance problems we found with high value and complex appraisals, caused in large part by these concerns, ASD lacks an oversight mechanism to guarantee that the federal government is represented as fervently as the private parties that have a vested interest in transacting land at a more favorable price than that dictated by market value.

ASD must also make sure that, in the process of devoting attention to improving the quality of appraisals, it does not stymie its clients' abilities to complete critical land acquisitions or divestitures. Delays in delivery of appraisals can have substantial negative consequences on the ability of the land management agencies to carry out agency land acquisition objectives, and some land deals have been scuttled as a result. In addition, realty specialists with whom we spoke consistently warned of the potential for greater problems in the future if frustration with dealing with what is seen, by landowners, as inefficient government bureaucracy, worsens. While trying to fix the systemic and egregious problems that threatened appraisal integrity in the past, the centralization of the appraisal function has unintentionally caused inefficiencies in other processes that aid appraisal services. First, accountability for predictable and timely appraisal delivery has not been given proper attention. For instance, without a requirement for ASD to deliver appraisals in a timely or predictable manner, appraisers rarely negotiate appraisal time frames with client realty specialists, seek critical information from clients, or prioritize appraisal requests, which have led to lengthy delays in appraisal delivery. Lengthy delays can cause land management agencies to lose land acquisition opportunities and lose funding for these opportunities. Second, some highly visible ASD business

practices have unintentionally impacted appraisal delivery. The contracting function, for example, represents an additional cost to ASD, and adds substantial time to appraisal delivery compared to when the function was within the client agencies. While Interior has recognized the inefficiencies caused by having the contracting function in the National Business Center's Southwest Branch location, it hopes to remedy this by relocating the function to GovWorks in its Virginia office. It is too soon to tell whether this change will make the processes more efficient. If such efficiencies do not result from this change, Interior may wish to consider other alternatives, which could include relocating these functions back into the land management agencies.

While Interior gave much attention to ensuring independence and objectivity of appraisals, it kept appraisals for a majority of its land acquisition dollars outside of ASD's purview—thus allowing these appraisals to be subject to the same pressures that affected Interior's appraisers prior to the formation of ASD. Despite significant efforts to reform Interior's appraisal services, the majority of Interior's land acquisition dollars are tied to programs not requiring any federal review of appraisals. Consequently, the government has limited assurance that land valuations are accurate in real estate transactions with private parties valued at hundreds of millions of dollars each year.

Recommendations

To ensure that land transactions are based on appraised values that adhere to recognized appraisal standards, the Secretary of the Interior should take the following steps:

- Ensure that ASD assigns appraisals requiring specialized skills—such as minerals, timber, and water competencies—to appraisers and review appraisers with these skills.
- Establish and implement standardized review procedures for ASD's review appraisers, such as the use of appraisal checklists from the Uniform Appraisal Standards for Federal Land Acquisitions.
- Establish and implement a compliance inspection program, focusing particularly on appraisals with a higher likelihood of noncompliance.

To establish a better accountability framework for ASD to help meet clients' appraisal needs, we recommend that the Secretary of the Interior—in collaboration with ASD and the land management agencies it serves—take the following actions:

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- Require ASD appraisers and land management agency realty specialists requesting work to negotiate and reach agreement on completion dates for appraisal requests, and hold ASD accountable for meeting these dates.
 - Develop a system to prioritize appraisal requests that allows higher priority and more time-sensitive land transactions to be appraised in a timely fashion.
 - Clarify, in the Service Level Agreements, who has responsibility for obtaining and providing appraisal information needed in order to complete an appraisal and review.

To help ensure greater efficiency of operations, we recommend that the Secretary of the Interior direct ASD to develop formulas reflecting market value for partial acquisitions that yield little revenue to the federal government—which are allowed by recognized appraisal standards.

To ensure that Interior's grant-in-aid land transactions currently conducted outside ASD's purview conform to recognized standards, we recommend that the Secretary of the Interior direct the head of ASD, in collaboration with grant-in-aid program officials, to clarify the terms of ASD's involvement in the review of grant recipients' appraisals.

Agency Comments and Our Evaluation

We provided Interior with a draft of this report for review and comment. Its written comments are provided in appendix II. Interior generally agreed with our findings and recommendations and welcomes the report's intent to improve the overall appraisal process and services provided through ASD. Interior also said that ASD will continue to strive to provide high quality valuations services, that the recommendations further strengthen how it performs real property appraisals, and that it is dedicated to addressing the recommendations promptly. With regard to our recommendations to ensure that ASD assigns appraisal workload requiring specialized skills to appraisers with such skills, establish and implement standardized review procedures, and establish and implement a compliance inspection program, Interior said that it was taking or planning several actions. On the issue of assigning appraisers with specialized appraiser skills, it said that ASD, in cooperation with DOI University, is developing appraisal-specific training that will be first offered in January and February 2007 and will be training sessions in appraisal review, which are required by the American Society Farm Managers and Rural Appraisers for their appraisal-review designations. It said that ASD has also established the Office of Minerals Evaluation in Denver, headed by a

minerals expert, which is being staffed to meet the minerals valuation needs of ASD. Also, it said that it has begun better lines of communication with the client bureaus for expertise in such things as water rights. In addition, it said that as staff retire, it is replacing them with individuals who have greater levels of expertise. With respect to standardizing review procedures and implementing a compliance inspection program, it said that ASD has drafted and circulated an outline of such a program with the charge of finalizing a review process to be implemented during fiscal year 2007. It said that its intent is to use the compliance review process as a management tool to identify appropriate staffing levels and allocations, identify and target training needs, and assign accountability at the appraiser and reviewer levels.

Interior provided the following in response to our recommendations to (1) establish a better accountability framework for ASD to help meet client's appraisal needs by requiring ASD appraisers and land management agency realty specialists to reach agreement on appraisal completion dates, (2) develop a system to prioritize appraisal requests, and (3) clarify responsibility for obtaining and providing appraisal information. It said that ASD will be reinforcing the need for timely response to requests and that adherence will be monitored through the compliance review process. Also, accountability will be reinforced. It said that while ARRTS has an automatic notification feature if the requested completion date and projected completion date differ, the notification does not get generated if information is not entered in a timely manner into ARRTS. It also said that ASD recognizes that prioritization is a requisite to timely service to its clients. In this regard, it said that ASD has recognized the process used by the Midwest Region's Regional Appraiser's meetings with FWS realty managers as a best practice and has instituted this concept with all its client bureaus. Furthermore, Interior has established the National Appraisal Coordination Team, comprised of ASD management and client bureau management, which meets quarterly to discuss prioritization issues. Interior also said that ASD will work with the bureaus to clarify the instructions found in ARRTS and in the Service Level Agreements for gathering and providing appraisal information.

We are encouraged by the actions Interior has outlined above for addressing the deficiencies noted in the report. With regard to the issue of assigning appraisers with specialized skills to perform appraisals requiring such skills, the training programs and staffing initiatives are steps in the right direction. However, some of these initiatives will take time before the staff have developed the skills needed to ensure that these specific appraisals in question meet appraisal standards. Providing the training, in

and of itself, is no guarantee that the proper skills are used. Accordingly, we are also encouraged that the compliance inspection program being developed will involve processes to assess these efforts. However, as with any compliance program, the assessments occur after the fact with the intent of identifying actions to prevent future occurrences. Thus, until such time as the compliance program is in place, Interior should closely monitor the appraisals currently underway to assess compliance with appraisal standards, giving specific attention to the types of appraisals identified in our report. The steps outlined to address the timeliness of appraisal delivery are also positive. The key to their successes, particularly with regard to prioritizing appraisals, appear to be centered on the frequency with which meetings occur between ASD and the clients. Interior said that ASD has instituted the concept of meetings with all of its clients. It is not clear from these comments, however, the frequency with which these meetings will take place and what processes ASD and the clients will employ—such as negotiating time frames for each appraisal request—to ensure that the correct priorities are placed on the lands needing appraisals and the appraisals already underway.

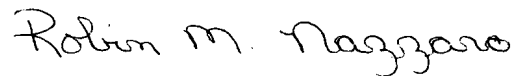
On our recommendation to develop formulas reflecting market value for partial acquisitions that yield little revenue to the federal government, Interior agreed that a more efficient process for these low-value products must be developed. It identified several possible solutions, such as mass appraisal techniques, computer-assisted mass appraisals, or automated valuation models, that it will research and subsequently implement if deemed appropriate—which should result in both efficiency and cost savings in the long term. It said that, as this effort progresses, regulatory changes may be required to eliminate firm requirements that bureaus charge fair market value for these minor land uses. These, too, are positive steps. However, in its comments, Interior does not outline the time frames in which these actions will occur. As the report points out, the costs of doing these appraisals are greater than the revenues generated. Thus, valuable resources for performing these appraisals could be used elsewhere on higher-priority needs. Accordingly, it is our view that Interior should identify a specific time frame for taking the actions it plans.

Lastly, Interior agreed with our recommendation to clarify the terms of ASD's involvement in the review of grant recipients' appraisals. It said that it will evaluate procedural and resource implications of ASD's involvement in the many grant-in-aid programs and clarify the terms of ASD's involvement. These actions are also positive, but as mentioned above, Interior did not outline the time frame for initiating and completing these actions.

Interior provided other comments for updating information in the report or for providing technical clarifications that we have incorporated, as appropriate.

Copies of this report will be sent to the Secretary of the Interior and other interested parties. We will also make copies available to others upon request. In addition, this report will be available at no charge on the GAO Web site at www.gao.gov.

If you have any questions about this report or need additional information, please contact me at (202) 512-3841 or nazzaror@gao.gov. Contact points for our Office of Congressional Relations and Public Affairs can be found on the last page of this report. Key contributors to this report can be found in appendix III.



Robin M. Nazzaro
Director, Natural Resources
and Environment

Appendix I: Scope and Methodology

To determine the extent to which the Department of the Interior's (Interior) appraisal policies and procedures ensure compliance with recognized standards for appraisals, we examined current federal laws, regulations, and guidance regarding land appraisal requirements for Interior, as well as guidance for the Appraisal Services Directorate (ASD), the Bureau of Land Management (BLM), the Bureau of Reclamation (Reclamation), the Fish and Wildlife Service (FWS), and the National Park Service (NPS). We also evaluated 324 of the 2,905 appraisals completed from November 2003 through February 21, 2006 that, based on past audit reports and our experts' opinions, have a higher probability of noncompliance. These consisted of appraisals for land transactions involving land exchanges; land valued over \$10 million; National Wildlife Refuge revenue-sharing; NPS acquisitions; and easements. These appraisals collectively represented 50 percent (nearly \$3.2 billion) of the total value of the land appraised since ASD's inception through February 21, 2006. We identified these appraisals using ASD's appraisal database, the Appraisal Request and Review Tracking System (ARRTS). We identified 563 appraisals that met the criteria listed above. Ninety-six could not be obtained because appraisers in the Pacific Region could not locate them. Additionally, 143 appraisals from the 563 were not evaluated by our experts because the appraised dollar value was low and, after further consideration, the type of appraisals was not one identified in prior audits as having a higher probability of noncompliance. After testing the data for reasonableness and interviewing the administrator of ARRTS, we determined that the data from ARRTS was sufficiently reliable for our purposes. To evaluate these appraisals, we contacted the Appraisal Foundation—an independent, nonprofit educational organization dedicated to the advancement of professional valuation and authorized by Congress to establish, improve, and promote professional appraisal standards—to retain appraisal experts to assist in our evaluation.

We retained four nationally recognized appraisal experts recommended by the Appraisal Foundation: Don Dorchester, Ron Hendricks, Henri LeMoyne, and John Widdoss. These appraisal experts evaluated the 324 appraisals, which included the associated ASD appraisal review, for compliance with appraisal requirements outlined in the two nationally recognized appraisal standards: Uniform Standards of Professional Appraisal Practices or Uniform Appraisal Standards for Federal Land Acquisitions. While we aimed to evaluate the entire population of appraisals having a higher likelihood of noncompliance, appraisers in ASD's Pacific Region could not locate nearly two-thirds of the 150 appraisal reports we requested. The Regional Appraiser stated that the 96 appraisal reports were lost when appraisers were moved from the land

management agency workspaces into ASD workspaces. Because we were unable to evaluate 96 appraisals we requested from ASD's Pacific Region, we could not evaluate whether they met recognized appraisal standards.

To determine what, if anything, affects ASD's working relationships with its client agencies and its overall efficiency in providing appraisal services, we examined the guidance governing relationships between ASD and the National Business Center, and the client agencies in Interior: BLM, FWS, NPS, and Reclamation. This guidance includes federal laws and regulations, Interior regulations, agency and bureau policy manuals, and interagency agreements. We used ARRTS to analyze ASD's timeliness with completing appraisals and appraisal reviews. To assess ASD's working relationships with its client agencies, we conducted structured interviews with ASD's seven regional appraisers, who served as points-of-contact for communication between ASD and its client agencies. We also interviewed officials from ASD's client agencies regarding current appraisal procedures and the effect of these on the timeliness of appraisal delivery. To evaluate the overall efficiency of appraisal services, we identified ASD's billing and contracting procedures. In so doing, we talked to National Business Center officials in Washington, D.C.; Denver, Colorado; and the National Business Center's Southwest Branch in Fort Huachuca, Arizona, to identify the services they provide ASD, the cost of these services, and the effect of these services, if any, on the timeliness of the appraisal process. We also spoke with officials from non-government agencies involved in Interior land acquisitions in California, Colorado, and New Mexico.

To determine the extent to which there are land appraisals under Interior that ASD does not have the responsibility of overseeing, we interviewed ASD officials and grant officials from FWS and NPS. Through these interviews, and through ARRTS, we identified nine grant programs that we found to have land acquisition activities. For these nine grant programs, we obtained appraisal requirements through documents such as policy manuals, agency regulations, and the guidance provided to grant recipients. We also interviewed officials that manage these grant programs. To obtain funding levels for land acquisitions conducted by the grant programs in fiscal year 2005, we reviewed budget documents and/or received budget information from grant officials.

Our work was conducted in accordance with generally accepted government auditing standards, including an assessment of internal controls, between December 2005 and August 2006.

Appendix II: Comments from the Department of the Interior



United States Department of the Interior

OFFICE OF THE ASSISTANT SECRETARY
POLICY, MANAGEMENT AND BUDGET
Washington, DC 20240

SEP 22 2006



Ms. Robin M. Nazzaro
Director, Natural Resources and Environment
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms. Nazzaro:

Thank you for the opportunity to review and comment on the Government Accountability Office (GAO) draft report "Interior's Land Appraisal Services: Actions Needed to Improve Compliance with Appraisal Standards" (GAO-06-1050).

The Department of the Interior (DOI) generally agrees with the GAO's findings and recommendations and welcomes the reports' intent to improve the overall Departmental appraisal process and services it provides through the DOI National Business Center Appraisal Services Directorate (ASD). In the fewer than three years since the ASD was formed, significant improvements in the way the Department of the Interior performs real property appraisals have been implemented. The most significant change was the realignment of the appraisal function, and appraisers, from the Bureau of Land Management (BLM), Bureau of Reclamation (Reclamation), National Park Service (NPS), and the Fish and Wildlife Service (FWS) into the National Business Center (NBC).

Other significant ASD accomplishments since November 2003 are as follows:

1. Requiring adherence to national appraisal standards.
2. Formulation of a professional appraisal organization within DOI.
3. Evaluation of skill levels and revised hiring and training practices to develop a cadre of professional appraisers to address specific, and complex, appraisal problems.
4. Deployment of a Department-wide tracking system that tracks appraisal requests, links to other systems to record time spent and costs, and enables workload planning.
5. Consolidation of appraisal staff under professional appraisal management, which has, for the first time in the Department of Interior's history, created career paths for appraisers.
6. In accordance with Secretarial order, established the independence of the appraisal process..

ASD achieved these advances in collaboration with Interior bureaus and offices an effective and efficient manner. ASD will continue to strive to improve our professionalism and provide the high quality valuations services.

The recommendations once implemented will further strengthen how the DOI performs real property appraisals. The Department is dedicated to addressing the GAO's recommendations promptly.

Recommendation 1:

To ensure that land transactions are based on appraised values that adhere to recognized appraisal standards, the Secretary of the Interior should take the following steps:

- a. Ensure that ASD assigns appraisal workload requiring specialized appraisal skills, such as minerals, timber, and water competencies, to appraisers and review appraisers with these skills.
- b. Establish and implement standardized review and procedures for ASD's review appraisers, such as the use of appraisal checklists from the Uniform Appraisal Standards for Federal Land Acquisitions.
- c. Establish and implement a compliance inspection program, focusing particularly on appraisals with a higher likelihood of noncompliance.

DOI Response to Recommendation 1:

The Department agrees with this recommendation. Since the recommendation is comprised of three parts, each part is restated and responded to individually below.

Response to 1.a - Ensure that ASD assigns appraisal workload requiring specialized appraisal skills, such as minerals, timber, and water competencies, to appraisers and review appraisers with these skills.

ASD agrees that valuation assignments, both appraisals and reviews, should be completed by qualified appraisers and reviewers. The ASD appraisal staff, at the present time, is largely made up of the appraisers who were hired and trained by the bureaus. Within the limits of our resources, we are developing our staff to implement this recommendation. ASD is developing an appraisal-specific training track in cooperation with DOI University. The first offerings will be in January and February of 2007 and will be training sessions in Appraisal Review (four courses, with examinations, which are required by the American Society Farm Managers and Rural Appraisers (ASFMRA) for their appraisal-review designation-RPRA). Other courses will also be offered through DOI University for the staff including ASFMRA's A-34, *Advanced Resource Appraisal*, *Natural Resource Appraisal* seminar, and *Minerals Appraisal* seminar.

ASD (in conjunction with Office of Appraisal Services) has established the Office of Minerals Evaluation in Denver. This office is headed by a minerals expert and is being staffed to meet the minerals valuation needs of the ASD and OAS. While this is being largely funded by the OAS, to participate fully places an additional strain on ASD's resources. We have begun better lines of communication with the Client Bureaus for expertise in such things as water rights (where we have begun a working relationship with BLM water rights experts). One of our newer employees, Martin Wild, PhD, ARA, RPRA is a registered forester. Other staff appraisers who have similar expertise include Mark Davis, RPRA, Gerald Stoebig, MAI, and Arlen Jacoby to name three – all of whom have been ASD employees since the consolidation.

ASD has been told by the Secretary to be a “professional” provider of valuation services to its clients. In order to meet that goal, the overall professionalism of its staff must be continually enhanced. One method to do this is through increased quantity and improved quality of training, which is being implemented throughout the organization.

Another way is to provide the vehicles for the staff appraisers to associate with other professionals on an ongoing basis. ASD has actively supported professional membership and advancement to designations by nationally recognized organizations.

A third way is to replace retirees or transfers with individuals who have greater levels of expertise. All of ASD’s new appraiser hires over the last 18-months hold a professional designation – an ARA, MAI, or RPRA. These individuals have brought a fresh, and much broader, prospective to market valuations in the Department. Since the formation of ASD, there have been no fewer than three appraisers who have earned their Real Property Review Appraiser (RPRA) designation; two who have earned the ARA designation; and one who has earned the MAI designation. The proportion of designated appraisers in the ASD has increased since it was formed. In one region, Rocky Mountain, there has been a 150% increase in the number of appraisers holding the ARA, MAI, or RPRA designations. All of this increase has come from developing ASD’s on-board staff.

Since its inception, ASD has, and will continue to, reinforce the requirement for adherence to standards in its appraisal and review processes.

Response to 1.b and 1.c.

Establish and implement standardized review procedures for ASD’s review appraisers, such as the use of appraisal checklists from the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA).

and,

Establish and implement a compliance inspection program focusing particularly on appraisals with a higher likelihood of noncompliance.

ASD agrees with these recommendations. Having hired a Deputy Chief Appraiser for Compliance and Policy in February 2006, ASD took the initial steps toward implementing a formal Compliance Review program. A draft outline of a Compliance Review program was circulated in mid-May 2006; a Compliance Review Team was appointed in June 2006 with the charge of finalizing a review process to be implemented during FY 2007; the review procedures are nearly finalized; and two pilot reviews are scheduled for October 2007. The pilot reviews will serve to train the review team and to test the procedures and practices that are proposed. The department’s compliance review program will be fully implemented during FY 2007.

Findings of the compliance reviews will be provided to senior management, including Regional Appraisers on a region-by-region basis. It is the intent to use the compliance review process as a continuous improvement effort; a quality control tool; and as a management tool to identify appropriate staffing levels and allocations, identify and target training needs, and to assign accountability at the appraiser and reviewer levels.

A critical component of the compliance process is to establish consistency between and among the regions. Through its first review cycle, the compliance review program will be identifying best practices and ASD will then implement them throughout the ASD system. Such things as appraisal format, appraisal review format, and the forms used in the review process will be standardized and as appropriate, automated. The ASD Deputy Chief Appraiser for Compliance and Policy is developing an electronic version of Appendix A of UASFLA (Appraisal Report Documentation Checklist) to be used by all ASD review appraisers. ASD firmly believes, however, that the use of a checklist in the review and compliance process only performs part of the total function. A checklist only ensures that required components are present in an appraisal and/or review; it cannot ensure that the components are adequate, meet required standards, or support a credible value opinion. ASD will ensure that the standard process that is implemented does these things.

Recommendation 2:

To establish a better accountability framework for ASD to help meet client's appraisal needs, we recommend that the Secretary of the Interior --- in collaboration with the Appraisal Services Directorate and the land management agencies it serves --- take the following actions:

- a. Require ASD appraisers and land management agency realty specialists requesting work to negotiate and reach agreement on completion dates for appraisal requests, and hold ASD accountable for meeting this date.
- b. Develop a system to prioritize appraisal requests that allows higher priority and more time sensitive land transactions to be appraised in a timely fashion.
- c. Clarify, in the Service Level Agreements, who has responsibility for obtaining and providing appraisal information needed in order to complete an appraisal and review.

DOI Response to Recommendation 2:

The Department agrees with this recommendation. Since the recommendation is comprised of three parts, each part is restated and responded to individually below.

Response to 2.a. - Require ASD appraisers and land management agency realty specialists requesting work to negotiate and reach agreement on completion dates for appraisal requests, and hold ASD accountable for meeting this date.

ASD agrees with the inclusion of the above as a recommended action. The inconsistency in establishing realistic completion dates for appraisal services leads to frustration on the part of both the client bureaus and the ASD appraisers and reviewers. The Appraisal Request and Review Tracking System (ARRTS) has an automatic notification feature if the requested completion date (entered by client) and the projected completion date (entered by ASD) do not agree. An email notification is sent to the submitter and the approver that includes the following language, "The projected completion date for the project is xx/xx/xxxx vs. the original requested completion date of xx/xx/xxxx." Upon review, there is room for improvement in the structure of the notification. For example, the generation of the report depends upon timely entry of the information by the engaging appraiser. If this is not done, no one receives the notification. ASD will be reinforcing the need for timely response to requests; adherence will be monitored through the compliance review process; and accountability, as previously indicated, will also be reinforced.

However, an appraisal, like many other types of projects, is subject to unforeseen circumstances. For appraisers, the key is to produce a credible appraisal (or review of an appraisal) by performing a scope of work suitable for the assignment. This is a Uniform Standards of Professional Appraisal Practices (USPAP) requirement. According to the USPAP SCOPE OF WORK Rule: "*An appraiser must not allow assignment conditions to limit the scope of work to such a degree that the assignment results are not credible in the context of the intended use.*" This rule also recognizes that the scope of work actually performed may differ from the scope of work initially planned: "*Determining the scope of work is an ongoing process in an assignment. Information or conditions discovered during the course of an assignment might cause the appraiser to reconsider the scope of work.*"

An illustration of this is provided by USPAP Advisory Opinion 29 (AO-29):

An appraiser has agreed to complete an assignment in the next two days. While conducting research, the appraiser discovers that the primary data source for the assignment, a regional computer database, is off-line and will not be available for three days. What is the appropriate course of action?

The textbook answer to this situation is:

If an appraiser is unable to perform research that the appraiser's peers would conduct and intended users would expect, the appraiser must modify the assignment to allow time for the research to be conducted, or withdraw from the assignment.

ASD appraisers and review-appraisers do not have the option of withdrawing from the assignment. Nor do they, as professionals working under specific standards, have the option of finishing it with an inadequate scope. We must allow for adequate scopes of work to meet professional standards.

Incomplete appraisal requests play a significant role in the timeliness of an appraisal's delivery. For example, it is not uncommon for the realty specialists to request an appraisal before the critical elements to be considered in the analysis are discovered. In such cases, property boundaries are not clear when the request is submitted or Title Reports are either not included or not reviewed by the Realty staff sufficiently to identify elements such as water rights or

easements which may ultimately impact the transaction's closing or its valuation. It is impossible for ASD to determine proper delivery dates before the real estate is clearly identified. Historically, the burden to identify these concerns was placed upon the appraiser. However, the appraiser is not the negotiator of the transaction and there could be a disconnect between the property valued and that which was negotiated for acquisition. This may call for additional attention to properly training realty staff to know exactly what they are acquiring for the USA may still be necessary. There has been success in this area. For example, the Forest Service encountered this same problem as they improved their appraisal delivery system. They are successful now because realty staff has been trained and the appraisal staff no longer accepts incomplete requests. We believe it is critical to the process that realty staff clearly identify the real estate before requesting an appraisal. (See further comment on this critical issue below.)

Response to 2.b. - Develop a system to prioritize appraisal requests that allows higher priority and more time sensitive land transactions to be appraised in a timely fashion.

ASD recognizes that prioritization is a requisite to timely service to its clients. It generally operates on a "first come, first served" basis. This works well when the number of clients is limited and the ASD staff is located relatively close to the client bureau. However, this is not as easy in ASD regions where there are numerous clients in several different cities.

The draft report makes mention of the Midwest Region's Regional Appraiser's meetings with FWS realty managers. This has been recognized by ASD as a "best practice" and, in April of 2006, ASD instituted the concept with all client bureaus. The concept has been modified to fit the needs of the regions where the client bureaus are located some distance from the ASD regional office, and where the bureaus themselves are dispersed in their organization – operating sometimes out of numerous field offices. In some cases monthly or quarterly telephonic conferences are held. In other regions the office leads and supervisors keep in close contact with their numerous clients by telephone and email. A major outcome of these discussions is the priority appraisal needs of the organization. Based on the discussion between the bureaus and ASD, the work is better prioritized. We believe it important that there be regular contact between appraisers and realty personnel is held. At least one region has reported, however, that they have seen some progress as a result of the monthly meetings.

ASD management has also begun quarterly meetings between ASD at the management level and the major client bureaus at the management level. Called the National Appraisal Coordination Team, the group held its organizational meeting in June and will reconvene in September. Future agenda items will include the need for coordinated prioritization of assignments at the regional level.

Response to 2.c. - Clarify, in the Service Level Agreements, who has responsibility for obtaining and providing appraisal information needed in order to complete an appraisal and review.

The documents and information required to assemble a request for an appraisal includes the information required for a prudent purchaser i.e., the client bureau manager, to make a well informed purchase decision (or for a prudent seller to make a well informed disposal decision.) The typical information required to even begin the award process for an appraisal assignment

(whether to staff appraisers or contract appraisers) includes such information as: maps, including aerial photographs, a boundary map, topographic map; a full legal description; title to the property (including precise information as to ownership); improvements on the property to be valued; interests to be valued (water rights, minerals, timber (including timber contracts, if any), less than a fee interest, grazing leases or permits, etc.); any reservations proposed by the landowner; presence of hazardous substances; permission to enter the property; basic property information including directions to the property, physical and legal access (improved vs. trail), and any background information that may be helpful. For example, is it being facilitated by a third party, are there any controversies, etc. It is also important to know the intended users of the appraisal report. Most, if not all, of this information is required to make an informed purchase about long term management of the property, and decisions about disposition of the property. It is required to assemble a request for appraisal services.

Based on the recommendation, ASD will work with the bureaus to clarify the instructions found in ARRTS (which contains relatively specific requirements for data submission) and in the Service Level Agreements. We have been informed that the US Forest Service specifically requires that all requests for appraisals be accompanied by the information outlined in the previous paragraph. The USFS also indicated to us that if the information was not included, the request was returned to the requester as incomplete. ASD will work with the bureaus to develop standards for the submission of information needed for an appraisal.

Recommendation 3:

To help ensure greater efficiency of operations, we recommend the Secretary of the Interior direct ASD to develop formulas reflecting market value for partial acquisitions that yield little revenue to the federal government – which are allowed by recognized appraisal standards.

DOI Response to Recommendation 3:

The Department agrees with this recommendation.

A more efficient process for these “low value/return” products must be developed. There are several possible solutions, including the use of Mass Appraisal techniques. “CAMA”, or Computer Assisted Mass Appraisals, have been used in the property assessment community for years. While they may not be directly adaptable to the needs of DOI, the basic premises and fundamentals of CAMA should be explored. Automated Valuation Models (“AVM”) may have some applicability and the use of limited-scope appraisals may also be part of a practical solution. Researching these alternatives and subsequently implementing them if it is determined to be appropriate should result in both efficiency and cost savings in the long term. As the effort progresses, regulatory changes may be required to eliminate firm requirements that bureaus charge “fair market value” for these minor land uses. When used in regulations, the term “fair market value” is generally perceived to mandate an appraisal. Language similar to that in BLM’s rights-of-way regulations at 43CFR2806.50 would allow greater flexibility and efficiency while still assuring fair return to the government for these land uses. As we have noted elsewhere, OMB Circular A-25 does not require appraisals for agencies to set user fees or charges for use of government property.

Recommendation 4:

To ensure that Interior's grant-in-aid land transactions currently conducted outside ASD's purview conform to recognized standards, we recommend that the Secretary of Interior direct the head of Appraisal Services Directorate, in collaboration with grant-in-aid program officials, clarify the terms of ASD's involvement in the review of grant recipients' appraisals.

DOI Response to Recommendation 4:

The Department agrees with this recommendation.

ASD, as was correctly pointed out in the draft report, is occasionally asked to participate in the oversight of some grants-in-aid appraisals through the provision of review services. In some instances, the ASD and the grant recipient have begun active communications and coordination of the entire appraisal process.

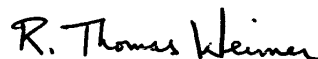
The Department will evaluate procedural and resource implications of ASD involvement in the many grant-in-aid programs and will clarify the terms of ASD's involvement.

In summary, Interior concurs with the concerns and recommendations expressed in the report. ASD, over the three years since its formation, has identified several of the weaknesses and concerns identified in the report and has taken corrective actions, some of which are in their implementation phase. The recommendations contained in the draft report, in our view, reinforce the actions that have been taken to date as well as those that are being implemented.

We appreciate the examination and GAO's interest in DOI's efforts to resolve long standing appraisal concerns within the Department. Thank you for the opportunity to work with your team during its review of Interior's Land Appraisal Services. If you have any questions, please contact Dean Martin, Audit Liaison Officer, National Business Center, 303-969-5195.

Please refer to the enclosure for additional technical comments provided for your consideration

Sincerely,



R. Thomas Weimer
Assistant Secretary

Enclosure

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Robin Nazzaro (202) 512-3841 or nazzaror@gao.gov

Staff Acknowledgments

In addition to the individual named above, Roy Judy, Assistant Director; Nathan Anderson; Phillip Farah; Richard Johnson; Paul Kinney; Michael Krafve; Jay Smale; Bill Woods; and Arvin Wu made key contributions to this report.

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