



Department of the Interior Office of Inspector General

**Interior's
Partnerships
with Non-
Federal
Parties
Benefit Land
Acquisitions;
Questions
Remain on
Appraisal
Policy**



*Black Ridge Canyons Wilderness, Colorado and Utah
Photo Courtesy of Bureau of Land Management*

Managing Land Acquisitions Involving Non-Federal Partnerships Department of the Interior

**Report No. W-IN-MOA-0085-2004
September 2005**



United States Department of the Interior

Office of Inspector General
Washington, D.C. 20240

September 29, 2005

Memorandum

To: P. Lynn Scarlett
Assistant Secretary for Policy, Management and Budget

From: Earl E. Devaney
Inspector General

Subject: Final Report *Managing Land Acquisitions Involving Non-Federal Partnerships*,
Report No. W-IN-MOA-0085-2004

We recently evaluated the role of non-federal partners in Department of the Interior (DOI) land acquisitions to determine whether such acquisitions promoted bureau and DOI objectives and were in the best interest of the federal government. I am pleased to report that these partnerships have been beneficial in helping DOI bureaus meet their mission goals of managing and conserving the nation's natural resources and protecting threatened and endangered species. Where funding or authorization for an acquisition is being sought but does not yet exist, or where a property must be purchased quickly, non-federal partners can negotiate with owners to hold the property until a DOI bureau is ready to complete the acquisition. Further, there can be financial benefits from working with non-federal partners. We noted many instances where non-federal partners sold land at bargain prices or simply donated the land to DOI bureaus.

While acknowledging these benefits, however, we remain concerned about the efficacy of continuing to allow DOI's non-federal partners to prepare appraisals. Our concerns in this area center on how best to ensure the independence of DOI review-appraisers, who often faced the difficult decision of either approving a substandard appraisal that valued the land at a price acceptable to the landowner or rejecting the appraisal and derailing an important land acquisition.

In November 2003, the Secretary of the Interior acted decisively to protect the independence and objectivity of DOI appraisers by ordering the consolidation of DOI's real estate appraisal functions within a newly created Appraisal Services Directorate (ASD) located within the National Business Center. The Secretary followed up on the reorganization in December 2004 by establishing specific policies on land valuation and appraisals, including a policy addressing the use of appraisals provided by non-federal parties. This policy prescribes DOI review of such appraisals if the following conditions are met:

- The non-federal party consults with ASD before initiating the appraisal on the scope of work and the selection of the appraiser.
- ASD is recognized as a client for and the intended user of the appraisal.
- ASD determines that the appraisal was prepared by a certified appraiser and meets applicable appraisal standards.
- The request to review the appraisal is made by a senior departmental manager who has determined that the land transaction proposal supported by the appraisal comports with applicable agency mission, priorities, and plans.

We applaud the action taken by the Secretary to protect appraisers from undue agency and political influence and ensure the integrity of the land appraisal process, but remain concerned that the policy makes it more difficult for ASD review-appraisers to reject substandard and marginal appraisals. For example:

- The requirement for prior consultation with ASD, while necessary to give DOI a voice in selecting non-federal appraisers and developing scopes of work, is likely to increase the expectation of bureau managers and non-federal parties that appraisals will be approved. Although the policy clearly states that no such expectation should be created, the partnership manifested by this process may engender just such an expectation.
- The requirement that ASD review appraisals provided by non-federal parties once a senior departmental manager has determined that an acquisition is important may reduce the number of occasions when ASD is required to use such appraisals. On those occasions, however, review-appraisers faced with a deficient appraisal may be put in the precarious position of having to disapprove the appraisal, thus impeding an acquisition that has high-level DOI buy-in.

In our audits of DOI land acquisitions and land exchanges, which date to 1992 (see the Appendix), we have found significant problems with appraisals provided by non-federal parties, including property value estimates based on inaccurate size and condition, flawed assumptions about the highest and best use of the land, and dubious comparable sales analyses. In addition, in cases where property values differed between federal and non-federal appraisals, bureau review-appraisers often disregarded the federal appraisals in favor of the higher values provided by the non-federal appraisals, ultimately conceding any concerns and objections to the non-federal appraisals and approving the higher value to advance the bureau's land acquisition objectives.

To provide the greatest opportunity for success in protecting the independence and objectivity of ASD review-appraisers, DOI should:

- Clearly communicate in preliminary consultations with bureau managers and non-federal parties that consideration and review of a non-federal appraisal does not

create an expectation that such appraisal will be approved. This will clearly signal to all involved that professional deference will be granted to an ASD review-appraiser tasked with reviewing the non-federal appraisal.

- Ensure that when ASD reviews an appraisal provided by non-federal parties and finds the appraisal deficient, the decision should revert to the senior DOI manager to terminate the acquisition or to proceed, using a new appraisal obtained by ASD or alternative methods of valuation, as outlined in the policy. This will give an ASD review-appraiser who rejects a deficient appraisal professional deference and place the policy decision about an acquisition where it should be – with senior DOI management.

Given our concerns, the magnitude and significance of long-standing issues surrounding land valuation and appraisal within DOI, and the substantial investment that has been made thus far to address these issues, we believe the effectiveness of this policy should be revisited prior to its extension or finalization. We would welcome the opportunity to assist in the future evaluation of this policy.

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to Congress on all reports issued. Accordingly, this report will be included in our next semiannual report.

We appreciate the cooperation shown by the Department and its bureaus during our review. A response to this report is not required. If you have any questions regarding this report, however, please call me at (202) 208-5745.

Appendix Prior Audit Coverage

Date	Report	Deficiencies Identified
May 1992	<i>Department of the Interior Land Acquisitions conducted with the assistance of Non-Profit Organization No. 92-I-833</i>	<ul style="list-style-type: none"> ➤ Paid \$5.2 million more than approved fair market value ➤ Increased appraisal values without documented support ➤ Purchased land without appraisals or appraisal reviews ➤ Valued land based on outdated appraisals ➤ Relied on questionable appraisals provided by non-profit organizations.
July 1996	<i>Nevada Land Exchange Activities, Bureau of Land Management No. 96-I01025</i>	<ul style="list-style-type: none"> ➤ Increased land values over approved fair market value without documenting rationale for action.
March 1998	<i>Del Webb Land Exchange in Nevada, Bureau of Land Management No. 98-I-363</i>	<ul style="list-style-type: none"> ➤ Washington Office inappropriately relieved the Nevada State Office chief appraiser of his delegated appraisal responsibilities, allowed the landowner to select their own appraiser and approved the resulting appraisal that undervalued the federal land by \$9 million.
September 1998	<i>Followup of Nevada Land Exchange Activities, Bureau of Land Management No. 98-I-689</i>	<ul style="list-style-type: none"> ➤ Washington Office quality control reviews were flawed and failed to detect or report continuing problems in the appraisal and valuation process that resulted in a \$12.3 million loss to government on just two exchanges.
December 1998	<i>Land Acquisition Activities, U.S. Fish and Wildlife Service, No. 99-I-162.</i>	<ul style="list-style-type: none"> ➤ Failed to establish just compensation before acquiring land through fee purchases or wetland easements. ➤ Used outdated appraisals.
May 1999	<i>Land Acquisition Activities, National Park Service No. 99-I-518</i>	<ul style="list-style-type: none"> ➤ Failed to meet at least one appraisal standard for 32 of 42 appraisals reviewed ➤ Obtained inappropriate appraisal updates at one park and did not obtain a valid appraisal at another park ➤ Relied on appraisals provided by non-federal parties.
March 2000	<i>Land Acquisition Activities, Bureau of Reclamation, No. 00-I-282</i>	<ul style="list-style-type: none"> ➤ Failed to develop guidelines for conducting transactions with nonprofits and, as a result, reimbursable acquisition costs could not be accurately determined.
July 2001	<i>Land Exchanges and Acquisitions, Bureau of Land Management, Utah State Office No. 2001-I-413</i>	<ul style="list-style-type: none"> ➤ Washington Office compromised the integrity and independence of the appraisal process by failing to follow accepted appraisal standards.

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