



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

**LAND ACQUISITION ACTIVITIES,
NATIONAL PARK SERVICE**

**REPORT NO. 99-I-518
MAY 1999**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

MAY 28 1999

Memorandum

To: Assistant Secretary for Fish and Wildlife and Parks

From: Robert I. Williams *Robert J. Williams*
Assistant Inspector General for Audits

Subject: Audit Report on Land Acquisition Activities, National Park Service
(No. 99-I-518)

This report presents the results of our audit of land acquisition activities conducted by the National Park Service. The objective of the audit was to determine whether the Park Service conducted land acquisition activities in accordance with applicable laws and regulations and whether it paid a fair price for the land acquired.

We found that the Park Service's processes and procedures for acquiring land were efficient and conducted in accordance with applicable laws and regulations in the areas of land acquisition planning; acquisitions through condemnation, donation, and transfer of properties; payments of relocation claims for closing costs, residential moving expenses, and replacement housing; and purchases of land costing less than \$100,000. However, for certain land acquisitions, the Park Service did not ensure that just compensation was properly established before it purchased lands and conservation easements at the regions reviewed. This occurred because the Park Service did not fully comply with Federal standards or implement the procedures for preparing and reviewing appraisals of real property. We found that 32 of the 42 appraisals reviewed did not meet Federal appraisal standards in at least one area, including 6 appraisals that were not adequately supported. We also found that 40 of the 42 appraisal review reports did not contain one or more of the required elements needed to substantiate that the reviews were performed properly and in compliance with regulations. In addition, the Park Service acquired one property without obtaining an appraisal and acquired another property based on an appraisal that had insufficient documentation to support the estimated fair market value. Officials at the Park Service's Washington Office attributed the noncompliance with Federal appraisal standards to insufficient program oversight. Because of the noncompliance, the Park Service did not have adequate assurance that it paid fair market value for land, including nine acquisitions that totaled \$7.3 million.

We also found that the Park Service did not take sufficient action to protect the Government's interests when it acquired land from nonprofit organizations. Specifically, the Park Service did not make concerted efforts to negotiate a sales price at an amount less than

fair market value when it acquired land from nonprofit organizations, even though such an option was authorized by Department of the Interior guidance. As a result, the Park Service did not take advantage of the opportunity to save about \$3 million, which represented the differences between the nonprofit organizations' purchase prices and selling prices of lands conveyed to the Park Service.

In addition, we found that the Park Service did not properly establish the amount of compensation paid for conservation easements at two parks. To facilitate the acquisition of conservation easements, the Park Service obtained inappropriate appraisal updates at one park and did not obtain a valid appraisal at another park. As a result, the Park Service may have paid \$2.6 million more than fair market value to obtain a conservation easement at one park and did not have assurance that the payment of \$588,000 for a conservation easement at another park was properly supported.

We also found that the Park Service's Southeast Regional Office, to expedite business property owner and tenant relocations for the 1996 Summer Olympics, paid relocation claims which were not supported by adequate documentation. As a result, the Park Service did not have adequate assurance that payments totaling \$53,400 for relocation costs were reasonable or justified.

Further, we found that the Park Service's land acquisition management information system contained data that were inaccurate and incomplete. Specifically, the system did not contain information on seven land purchases, totaling \$1.1 million, and 11.4 percent of the system's required data fields on land purchases made during fiscal years 1995 through 1997 were incomplete. Park Service officials said that system data were not complete and accurate because the Park Service had not implemented quality control procedures to validate system data or to ensure that erroneous data from a previous management information system were not entered into the new system. Because the data were inaccurate and incomplete, the Park Service did not have reliable information for tracking and managing land acquisition activities.

In the report section "Other Matters," we discussed the Park Service's use of appraisals obtained by nonprofit organizations. At the Southeast Region, the Park Service generally used appraisals obtained by nonprofit organizations to establish compensation amounts. Park Service officials said that they used nonprofit organizations' appraisals to expedite the acquisition process. Based on a review of appraisals obtained by landowners and those obtained independently by the Park Service, we found that the Park Service's independent appraisals in at least three cases established lower fair market values. As such, we believe that the Park Service might acquire land at lower prices if it obtains independent appraisals.

In the April 30, 1999, response (Appendix 2) to the draft report from the Director, National Park Service, the Park Service concurred with Recommendations A. 1, A.2, C.2, D.1, D.2, D.3, and E.1, which we considered resolved but not implemented. Accordingly, the unimplemented recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation. The Park Service did not concur

with Recommendations A.3, B.1, and E.2 and did not express specific concurrence or nonconcurrence with Recommendation C. 1. Based on the response, we request that the Park Service reconsider its responses to Recommendations A.3, B. 1, and E.2, which are unresolved, and provide additional information for Recommendation C. 1 (see Appendix 3).

In accordance with the Departmental Manual (360 DM 5.3), we are requesting a written response to this report by July 16, 1999. The response should provide the information requested in Appendix 3.

The legislation, as amended, creating the Office of Inspector General, requires semiannual reporting to the Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

We appreciate the assistance of Park Service personnel in the conduct of our audit.

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INTRODUCTION

BACKGROUND

The National Park System consists of 375 units designated as national parks, preserves, historic sites, monuments, seashores, recreation areas, battlefields, trails, and other areas. These units encompass more than 83 million acres of land, of which about 4.68 million acres (including 3.8 million acres in Alaska) were privately owned as of September 30, 1997. Park System lands are acquired to preserve nationally important natural and historic resources, to establish new parks, to provide additional lands in existing parks, and to add buffers around parks for natural resource protection. For parks within Park System boundaries that contain private land, the National Park Service has developed land protection plans, which identify the minimum land acquisitions needed to prevent incompatible uses of these lands.

Funding for land acquisitions is provided through annual appropriations from the Land and Water Conservation Fund. As provided in the Land and Water Conservation Fund Act of 1965, the Park Service can use this funding, which remains available until expended, to buy land only at Congressionally authorized parks. Also, Part 4.1 of the National Park Service's Land Acquisition Procedures Manual states that the written approval of the House and Senate Committees on Appropriations is required for purchases that cost more than the approved appraised value. The Fund also finances the administration of the land acquisition program, including the assessments of new units that are proposed for inclusion in the Park System. During fiscal years 1995 through 1997, the Park Service used appropriated funds totaling \$169 million to acquire 69,000 acres of land, of which \$22 million was used for program administration; \$8 million for appraisal, closing, relocation, and title costs; and \$139 million for direct payments to landowners.

The Park Service may acquire land through purchase, donation, condemnation, transfer from other Federal agencies, and exchange for other public and private lands. Also, the Park Service may obtain conservation easements to protect scenic, ecological, historic, archeological, or cultural resources within existing parks or in authorized areas outside park boundaries. When expedient action is needed to prevent the sale of property to other parties or to eliminate the threat of adverse development, the Park Service may acquire land with the assistance of nonprofit organizations. These organizations either purchase or obtain a purchase option on land with the intention of selling the land to the Park Service when funds are available.

¹This amount does not include a land exchange that added 85,000 acres to the Park Service's Big Cypress National Preserve because the transaction was conducted by the Office of the Secretary.

The Park Service's land acquisition activities are administered by its Land Resources Division, located in Washington, D.C.; nine regional offices; and three project offices. As of September 30, 1997, the Park Service had 141 full-time-equivalent employees engaged in land acquisition activities.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the National Park Service conducted land acquisition activities in accordance with applicable laws and regulations and whether it paid a fair price for the land acquired. The audit covered land acquisition activities that occurred during fiscal years 1995 through 1997.

We conducted the survey phase of our review at the Appalachian Trail Project Office in Martinsburg, West Virginia; the Northeast Regional Office in Philadelphia, Pennsylvania; the National Capital Regional Office in Washington, D.C.; and, the Southeast Regional Office in Atlanta, Georgia. Based on the results of our survey, we concluded that the Park Service's processes and procedures for acquiring land were conducted efficiently and in accordance with applicable laws and regulations in the areas of land acquisition planning; acquisitions through condemnation, donation, and transfer of properties; payments of relocation claims for closing costs, residential moving expenses, and replacement housing; and purchases of land costing less than \$100,000. Also, because we found no significant deficiencies in land acquisition practices at the Appalachian Trail Project Office during the survey phase, we limited our audit verification phase to determining whether fair prices were paid for land acquired by the Northeast, Southeast, and National Capitol Regional Offices.

We focused our audit on acquisitions of more than \$100,000 made through purchase or exchange (138 acquisitions, which totaled \$74 million), transactions with nonprofit organizations, and business relocation payments of more than \$5,000 because we considered these transactions to be the areas with the highest risk for deficiencies. At the three regional offices reviewed during the verification phase of our audit, these acquisitions involved costs of about \$41 million (including program funds for fiscal years 1995, 1996, and 1997 and the value of Federal lands used in exchanges). Of the acquisition costs of \$41 million, we audited costs of \$37 million, including costs of \$10.8 million attributable to land that the Park Service acquired by purchase or exchange from nonprofit organizations. (We reviewed 21 of 40 acquisitions at the Northeast and Southeast Regional Offices that were transacted with nonprofit organizations.) We also reviewed the Park Service's management information system, which is used to track and report land acquisition activities.

Our review was made, as applicable, in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. As part of our audit, we evaluated the system of internal controls over the land acquisition process to the extent we considered necessary to accomplish the

objective. We found internal control weaknesses in the Park Service's preparation and review of appraisals, transactions with nonprofit organizations, purchase of conservation easements, payment of business-related relocation claims, and maintenance of management information system data. Our recommendations, if implemented, should improve the internal controls in these areas.

In addition, we reviewed the Secretary's Annual Statement and Report to the President and the Congress, which is required by the Federal Managers' Financial Integrity Act, for fiscal year 1995 and the Departmental Reports on Accountability for fiscal years 1996 and 1997, which include information required by the Act, and determined that no reported weaknesses were within the objective and scope of our audit.

PRIOR AUDIT COVERAGE

During the past 7 years, the General Accounting Office has not issued any audit reports on the Park Service's land acquisition activities. However, the Office of Inspector General issued the audit report "Department of the Interior Land Acquisitions Conducted With the Assistance of Nonprofit Organizations" (No. 92-I-833) in May 1992, which covered the National Park Service, the U.S. Fish and Wildlife Service, and the Bureau of Land Management. The report concluded that nonprofit organizations helped acquire needed land but that certain transactions were not adequately controlled to ensure that nonprofit organizations did not benefit unduly and that the Government's interests were adequately protected. The report stated that none of the three bureaus fully complied with established appraisal standards which required that estimates of property values be timely, independent, and adequately supported by market data. As a result, according to the report, the Department had little assurance that the fair market value estimates used to establish land acquisition prices were timely, complete, and accurate. The report contained seven recommendations, all of which were considered resolved and implemented. However, our current audit found that the Park Service was not adequately protecting the Government's interests in transactions with nonprofit organizations and that appraisals did not fully meet established standards.

FINDINGS AND RECOMMENDATIONS

A. APPRAISALS

The National Park Service did not fully comply with the established standards or implement the required procedures for preparing and reviewing appraisals of real property. Specifically, we found that 32 of the 42 appraisals audited did not meet Federal standards in at least one area, including 6 appraisals that were not adequately supported. We also found that 40 of the 42 appraisal review reports did not contain one or more of the required elements needed to substantiate that the appraisal reviews were performed properly and in compliance with Federal standards and appraisal principles. In addition, the Park Service acquired one property without obtaining an appraisal and acquired another property based on an appraisal that had insufficient documentation to support the estimated fair market value. The guidelines for preparing and reviewing appraisals are contained in the “Uniform Appraisal Standards for Federal Land Acquisitions,” issued by the Interagency Land Acquisition Conference in 1992, and in the Park Service’s Land Acquisition Procedures Manual, both of which require that appraisals include specific information to support analyses, opinions, and conclusions and be reviewed and approved by appraisal reviewers. However, Park Service officials said that full compliance was not achieved because the Washington Office did not provide sufficient program oversight. As a result, the Park Service did not have adequate assurance that it paid fair market value for seven acquisitions, totaling \$7.0 million, for which adequately supported appraisals were not prepared; for one acquisition for \$70,000 that was not supported with an appraisal; and for one acquisition for \$280,000 for which the original appraisal was not available.

Appraisal Standards

We found that the Park Service did not fully comply with one or more of the Federal standards for preparing appraisals for 32 of 42 appraisals we reviewed, including 6 appraisals that were not adequately supported, 30 appraisals that did not contain the required appraiser certifications on conformity with Federal standards, and 6 appraisals that did not contain the required 10-year sales history of the subject property or information on the date of the last sale.

Adequately Supported Appraisals. The “Uniform Appraisal Standards for Federal Land Acquisitions” (the “Standards”) requires Federal agencies to appraise land at its “highest and best use” and to document the basis used to estimate land values. Moreover, Section A-9 of the “Standards” states, “Elements affecting value that depend upon events or combinations of occurrences which, while within the realm of possibility, are not fairly shown to be reasonably probable, should be excluded from consideration, for that would allow mere speculation and conjecture to become a guide for the ascertainment of value.”

We identified six appraisals that, in our opinion, were not adequately supported as follows:

- An appraisal valued a currently inaccessible tract of land at \$3.1 million based on the land's potential use for residential development. In the appraisal report, the appraiser stated that the access needed to develop the property (and thereby enable the property to have a higher value) could be purchased from an adjacent landowner for \$1 million, but the appraiser provided no documentation to support this assumption. However, we found documentation in the Park Service's files showing that the landowner of the adjacent property was unwilling to sell the land needed for access to (and future development of) the potential Park Service property. As such, we concluded that the appraised value was overstated because there was no documentation to show that the land had an existing or potential "highest and best use" for residential development.

- We considered one appraisal to be inadequately supported because the appraiser used the recent sale of the same property to a related party to estimate the property's market value. In this transaction, several parties, including a nonprofit organization, two companies, a lawyer, and an appraiser, were involved in negotiations to exchange private land for Park Service land. In a preliminary agreement, one of the companies involved in the negotiations agreed to exchange a portion of its land for Park Service land. Before the exchange was finalized, this company sold the total tract of land, including the parcel subject to the exchange, to the other company that was involved in the initial discussions on the land exchange. The nonprofit organization obtained or coordinated the appraisals of both tracts of land (the Park Service property and the property owned by the company). Also, the appraiser used the sales price of the land in estimating the land's fair market value (\$430,000), even though this land sale was transacted between two parties that were involved in the land exchange with the Park Service. We believe that there was not an "arm's-length" relationship between the parties involved in this land exchange because the appraisals for both properties were obtained by the nonprofit organization, which had negotiated the exchange, and because the appraised fair market value of the acquired land was based, in part, on the sales price of the land in a transaction between two parties which were involved in the land exchange negotiations.

- An appraisal provided by the landowner estimated that a property's fair market value was 1.5 percent more than comparable properties, thereby increasing the value of the property from \$49,300 to \$57,000. The adjustment was made on the basis of changed conditions in another area where crime had decreased and property maintenance had improved, resulting in higher property values in that area. The appraiser, however, provided no documentation to support the assumption that the neighborhood in which the Park Service sought to acquire property would experience a similar decrease in crime or improvement in property maintenance.

- The Park Service obtained an updated appraisal that was made without a physical reinspection of the volume and quality of timber on the property. The appraiser estimated

the property's fair market value at \$1.4 million, or \$300,000 more than the \$1.1 million estimated fair market value in a prior appraisal that was performed 2 years earlier. Park Service procedures in Section 3.3.5 of the Land Acquisition Manual, Part XI, state that "updated appraisals shall be complete appraisal reports in every respect," including reinspection of the subject property. Although Park Service officials stated that the appraiser's timber estimator had visited the property and measured several sample plots to calculate the increase in timber volume, the appraisal report stated, "The update was done without revisiting the property, and I assume that no timber harvests have been made, nor have there been any losses due to insects, wind, ice, or other factors that would substantially affect the value of the property."

- Two properties were appraised at \$250,000 and \$1.5 million, respectively, based on the properties being free of contaminants, even though the Park Service was aware that contaminants existed on these properties. Section C-9 of the "Standards" states that "it is improper to estimate the market value of a property assuming it is free of contamination when there is evidence, by the past use of the property or the appraiser's inspection thereof, that contamination may exist." Park Service officials stated that the appraisal for both properties was performed in this manner to expedite the purchase in time for the 1996 Olympic Games.

- An appraiser increased the value of a property by \$10,000, to \$255,000, based on information provided by the property owner that a second source of water on the property could be used to develop an additional residence. Because the appraiser did not verify the owner's assertion, we considered the \$10,000 adjustment to be unsupported.

Appraiser Certifications. Section B- 1.4 of the "Standards" requires that appraisals used by the Government contain appraiser certifications that the appraisals were prepared in conformity with nine provisions in the "Standards." We found, however, that 30 of 42 appraisals audited did not contain the required certifications that the appraisals were prepared in conformity with the "Standards." Instead, less stringent commercial standards were cited. As a result, the Park Service did not have full assurance that the appraisers properly considered the "Standards" when the appraisals were prepared and that the appraisals they prepared were valid and complete.

Prior Sales History. Section A-5 of the "Standards" requires the appraisals to contain a history of the appraised property, including all sales of the property within the past 10 years. Section A-5 states, "prior sales of the same property, reasonably recent and not forced, are extremely probative evidence of market value." We found, however, that 6 of the 42 appraisals reviewed did not contain the required 10-year history of the subject property or the date of the sale. As a result, the Park Service did not have full assurance that the appraisals were based on complete information on which to establish the estimated value of the land.

Appraisal Reviews

Section C-8 of the “Standards” states that the Appraisal Foundation’s “Uniform Standards of Professional Appraisal Practice” should be considered a minimum requirement for appraisal review. Standard 3 of the “Uniform Standards” requires that appraisers review and express an opinion in appraisal review reports on (1) the appraisal’s completeness; (2) the adequacy and relevance of the data used and the propriety of any adjustments to the data; (3) the appropriateness of the appraisal methods and the techniques used; and (4) whether the analyses, opinions, and conclusions in the appraisals are appropriate and reasonable. This standard also requires that review appraisers include signed certifications in their reports stating the following: (1) facts and data used in the review and reporting process are true and correct; (2) reported analyses, opinions, and conclusions are objective and based on the assumptions and conditions stated in the report; (3) the review appraiser has or does not have a present or prospective interest in the subject property and has or does not have a personal interest or bias with respect to the parties involved; (4) the review appraiser’s compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in or in the use of the report; (5) analyses, opinions, and conclusions were developed and reported in conformity with the “Uniform Standards of Professional Appraisal Practice”; (6) the review appraiser did or did not personally inspect the subject property under review; and (7) no one provided significant assistance to the review appraiser in the review and reporting process.

We found that 40 of the 42 appraisal reviews did not contain one or more of the four opinions and seven certifications required for each appraisal, as discussed in the previous paragraph. Park Service employees at the offices we visited could not explain why their review appraisers did not include the required opinions and certifications. As such, we believe that the Park Service did not take the required actions to ensure that the appraisals were adequately supported and that the review process was conducted in compliance with the “Uniform Standards of Professional Appraisal Practice.”

Required Appraisals

Both the Park Service’s Land Acquisition Procedures Manual and the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (Public Law 91-646) require that real property be appraised before negotiations with property owners are initiated. However, we found two transactions in which the Park Service either did not obtain the required appraisal or did not maintain a copy of the required appraisal as follows:

- At one regional office, Park Service officials said that the Chief Appraiser (now retired) approved the use of a market/feasibility study instead of a formal appraisal to establish a property’s value as \$70,000. According to a Park Service official, the study was performed to confirm the estimated market value of an unapproved appraisal that was

conducted 4 years earlier. Because this land acquisition was made without a formal appraisal, we consider the amount of this transaction to be unsupported.

- In January 1996, the Park Service offered to purchase property based on an approved appraisal that valued the property at \$200,000. The landowner rejected the offer. In February 1996, the Park Service approved another appraisal of the same property for \$280,000 and offered this amount to the landowner, who accepted the offer. According to a Park Service official, the landowner refused to accept the original offer of \$200,000 because the appraiser did not use the correct square footage or consider improvements made to a building on the property. The official further stated that the appraiser was “embarrassed” about his errors, collected all copies of the original appraisal, and submitted the new appraisal. Because no documentation was maintained, we could not determine whether the original appraisal was erroneous or the \$80,000 increase in value between the two appraisals was warranted.

Washington Office land acquisition officials said that they had not conducted routine reviews of regional or project offices’ land acquisition files or practices to ensure that the offices complied with acquisition regulations because of insufficient funding. Regarding the completeness of the appraisals, Washington Office officials said that regional officials may have approved appraisals based on valid assumptions or considerations but that the regional officials did not prepare documentation to show the factors considered in establishing and approving fair market values.

Two Appraisals

The U.S. Fish and Wildlife Service’s Appraisal Handbook requires that a second appraisal be prepared by a qualified contract appraiser or an appraiser from a different region for property that is “unique,” “controversial,” or “complex” or that has an estimated value exceeding \$750,000.² In a recent audit of the Service’s land acquisition activities (“Land Acquisition Activities, U.S. Fish and Wildlife Service,” Report No. 99-I-162, issued in December 1998), we found that of 17 land acquisitions for which the Service obtained two appraisals, it acquired the land at the lower of the two appraised values in 11 cases. The Park Service, however, does not require the preparation and approval of two appraisals for land acquisitions. Based on the benefits of using two appraisals, as demonstrated by the Fish and Wildlife Service’s acquisition of land at a lower cost, we believe that the Park Service should also require the preparation and approval of two appraisals for unique, controversial, or complex land acquisitions and for high-dollar value land acquisitions. Of the land acquisitions that were transacted in fiscal years 1995 through 1997, we identified 20

²In response to our draft report on Fish and Wildlife Service land acquisitions, Service officials said that they recently increased the acquisition threshold for requiring two appraisals to \$1 million.

acquisitions that involved acquisition costs of \$750,000 or more, of which 14 involved acquisition costs of \$1 million or more.

Recommendations

We recommend that the Director, National Park Service:

1. Provide Washington Office oversight of regional offices' land acquisition activities to ensure that requirements for the preparation and review of appraisals are followed, including compliance with the "Uniform Appraisal Standards for Federal Land Acquisitions."

2. Ensure that adequately documented appraisals are prepared and approved before offers are made to purchase land.

3. Establish a requirement for obtaining two appraisals for acquisitions that are unique, controversial, or complex or that exceed a designated high-dollar-value threshold.

National Park Service Response and Office of Inspector General Reply

In the April 30, 1999, response (Appendix 2) to the draft report, from the Director, National Park Service, the Park Service concurred with Recommendations 1 and 2 but did not concur with Recommendation 3. Based on the response, we consider Recommendations 1 and 2 resolved but not implemented, and request that the Park Service reconsider its response to Recommendation 3, which is unresolved (Appendix 3).

Regarding Recommendation 3, the Park Service stated that it did not believe a two-appraisal requirement was necessary because its appraisers already had the authority, which was not limited by the type or value of the property, to obtain "as many appraisals as necessary to assure conformance with UASFLA ["Uniform Appraisal Standards for Federal Land Acquisitions"]." The Park Service also stated that it "view[ed] this requirement as being potentially costly ... not an efficient use of Federal funds .. [and] may not even be necessary." In addition, the Park Service stated that "having two divergent appraisals on high value properties could put the government at a decided disadvantage if eminent domain is ultimately used to acquire the property."

Although we recognize that the Park Service has the authority to obtain more than one appraisal if deemed necessary, we believe that a requirement to obtain two appraisals for acquisitions which are unique, controversial, or complex or which exceed a designated high-dollar-value threshold would protect the Government's interests by ensuring that adequate support is obtained. Regarding the cost of a second appraisal, we believe that the potential for reducing land acquisition costs justifies the additional appraisal cost, as documented in

our audit report “Land Acquisition Activities, U.S. Fish and Wildlife Service” (No. 99-I-162), dated December 1998. According to that report, in 11 of 17 cases in which second appraisals were obtained, the Service realized savings by paying the lower of the appraised values. Moreover, since only 14 land acquisitions, costing \$1 million or more, were transacted during the 3-year period reviewed (fiscal years 1995 through 1997), the number of second appraisals, in our opinion, is relatively limited and therefore should not result in an undue burden to the Park Service.

The Park Service also stated that the Government could be at a “disadvantage” in eminent domain proceedings if there are two different appraisals for the property. We do not believe that disparate appraisals would adversely impact contested land acquisitions because, during eminent domain proceedings, the determination of cost is based not only on the appraisal or appraisals obtained by the Park Service but also on appraisals obtained by the Department of Justice and by the property owners. As such, the second appraisal would be just additional evidence of value available to the court.

Additional Comments on Audit Finding

The Park Service also provided additional comments on the finding. The Park Service’s comments and our replies are as follows:

Appraisals

National Park Service Comments. The Park Service “strongly disagreed” with our statement that it “did not fully comply with the established standards or implement the required procedures for preparing and reviewing appraisals of real property.” The Park Service stated that “except for a few isolated cases, all appraisals and reviews have met the intent of all established standards.”

Office of Inspector General Reply. We consider the 32 of 42 appraisals that did not meet all Federal appraisal standards and the 40 of 42 appraisal reviews that did not contain all required elements to be indicative of a significant number of deficiencies in the appraisal preparation and review process. Moreover, in stating that it would hire staff and establish oversight teams, we believe that the Park Service has recognized that existing controls are inadequate and that additional controls are needed to ensure compliance with Federal appraisal and appraisal review standards.

Adequately Supported Appraisals

National Park Service Comments. The Park Service stated that in our discussion of the inaccessible tract of land located at the Chattahoochee River National Recreation Area (page 5 of this report), we concluded that “the appraised value [\$3.1 million] was overstated

because there was no documentation to show that the land had an existing or potential highest and best use for residential development.” The Park Service further stated that it agreed with the appraiser’s valuation that the property had “a highest and best use for residential development ... based on the assumption that access could be purchased from the adjacent landowner.” Also, the Park Service stated that the appraiser interviewed the landowner, “who stated that he would sell an access easement to his neighbor if requested.”

Office of Inspector General Reply. We found no documentation to show that access to the land had been negotiated or agreed to, a requisite condition for this property to have an appraised market value based on its highest and best use for residential development. Rather, we found documentation in the Park Service’s acquisition files which showed that the owner of the adjoining property did not intend to sell access rights.

National Park Service Comments. Regarding the exchange of Federal land for private land located at the Chattahoochee River National Recreation Area (page 5 of this report), the Park Service said that we “considered one appraisal to be inadequately supported because the appraiser used the recent sale of the same property to a related party to estimate the property’s market value.” The Park Service also stated that it believed the appraiser “appropriately considered this sale of the subject property and properly concluded it was an arms-length transaction.” It quoted Section A-5 of the “Standards” as follows: “Since compensation is measured by market value (supra, p.3), prior sales of the same property, reasonably recent, and not forced, are extremely probative evidence of market value. Accordingly, the appraiser has an obligation to determine what the owner paid for the property.” Also, the Park Service stated that the appraiser “presented additional sales to support his conclusion that this transaction was within the adjusted value range of the other sales.”

Office of Inspector General Reply. The Park Service based its position on a Federal appraisal standard that, in our opinion, does not apply to this transaction. Although the cited standard (Section A-5) allows appraisers to use prior sales of the same property to establish market value, the prior sale in this example u-as between parties mutually involved in the Park Service land acquisition. As such, we believe that Section A-4 of the "Standards" applies: “Sales between. .. closely related business entities are not arms-length transactions, and since they may involve other considerations than a fair market value consideration, such sales should not be used for comparative purposes.” Also, regarding the additional “comparable sales,” we found that two of the five comparable sales included in the appraisal were offers for sale and not sales, three comparable sales were for properties which had significantly less acreage than the subject property. and only one sale involved a property of comparable size.

National Park Service Comments. The Park Service stated that it believed a 15 percent upward adjustment made to a property at the Martin Luther King, Jr. National Historic Site was “supported by a paired-sale analysis in the appraisal and warranted

consideration of the urban renewal efforts currently taking place in the area of the subject property.” The Park Service further stated that according to the Appraisal Institute, “When market evidence clearly supports differences between sales attributable to specific elements of comparison, paired data analysis can be a very effective technique.”

Office of Inspector General Reply. The “paired-sale analysis” to which the Park Service referred pertains to a technique for adjusting the fair market value of properties. Specifically, “The Appraisal of Real Estate,” published by the Appraisal Institute, states, “Paired data analysis is a process in which two or more market sales are compared to derive an indication of the size of the adjustment for a single characteristic.” Although we do not question the use of price adjustments for documented or reasonably assumed factors, we believe that the price adjustment made to the valuation of this Park Service property was unwarranted. In this case, the appraiser found that improved conditions in another neighborhood had resulted in higher property values. The appraiser applied an adjustment factor to increase the value of the Park Service property based on the increased value from improved conditions in the other neighborhood. However, we found no documentation to show that improvements were imminent or could reasonably be assumed in the neighborhood in which the Park Service sought to acquire property. Therefore, we believe that the appraiser had no basis for making the 1.5 percent upward adjustment to the value of the Park Service property.

National Park Service Comments. The Park Service stated that an appraiser prepared an updated appraisal of timber property without physically reinspecting the property and that the appraiser was “remiss” in not performing the inspection. The Park Service also said that the property had been reinspected by a forester who provided technical assistance to the appraiser and that the appraiser’s failure to reinspect “had no impact on the final value conclusion reached in the report.”

Office of Inspector General Reply. We found no documentation in the file to indicate that a forester physically inspected the entire property and fully evaluated timber conditions. As such, we believe that there was insufficient support for the updated appraisal’s valuation, which, in part, was based on the value of the timber on the property.

National Park Service Comments. Regarding the two properties that had known contaminants, the Park Service said that the properties “were appraised as being free of contaminants in order to expedite the acquisition process in time for the 1996 Olympic Games” and that it considered the appraisals to be “valid for the condition of the property when it was conveyed” because title to the properties was not taken until after the contaminants were removed.

Office of Inspector General Reply. We believe that the Government is taking an unacceptable risk when it relies on appraisals of contaminated properties which do not factor in professional estimates of the cleanup costs. Moreover, an appraisal that is based on future,

improved conditions of a property is not in compliance with the “Standards,” which states that it is “improper to estimate the market value of a property assuming it is free of contamination when there is evidence, by the past use of the property or the appraiser’s inspection thereof, that contamination may exist.”

Appraiser Certifications

National Park Service Comments. The Park Service agreed with our statement that 30 of 42 appraisals did not contain the appraisers’ certifications that they were prepared in accordance with the “Standards.” However, the Park Service “strongly disagree[d]” with our statement that it did not have full assurance that the appraisal standards were properly considered in the preparation of appraisals and that the appraisals were valid and complete. The Park Service further said that all appraisals used “to establish just compensation are reviewed to assure conformance with [the “Standards”], regardless of what is certified by the appraiser.”

Office of Inspector General Reply. In our opinion, the Park Service does not have “full assurance” that appraisals are prepared in accordance with professional appraisal standards unless the appraisers make such certifications.

National Park Service Comments. Although the Park Service agreed that 6 of the 42 appraisals reviewed did not contain the IO-year history of the subject property, it “strongly disagree[d]” that it “did not have full assurance that the appraisals were based on complete information on which to establish the estimated value of the land.” The Park Service further stated that its review appraisers had access to title information which would have informed them of any transactions impacting the valuation of subject properties and that its review appraisers would have required these transactions to be discussed in the appraisal reports.

Office of Inspector General Reply. We believe that the Park Service cannot have “full assurance” that its appraisals are based on complete information without evidence that it reviewed all required documentation (in this case, the required 10-year histories of the subject properties). Although Park Service review appraisers have access to title information, we could not determine whether such information was reviewed and considered in establishing market value because no documentation was available to show that historical sales information had been evaluated.

Appraisal Reviews

National Park Service Comments. The Park Service agreed with our statement that 40 of 42 appraisal reviews did not contain one or more of the four opinions and seven certifications required by the “Uniform Standards of Professional Appraisal Practice,” but it “strongly disagree[d]” that it did not take required actions to ensure that the appraisals were

adequately supported and that the review process was conducted in compliance with appraisal standards. The Park Service stated that all appraisals were reviewed “to assure conformance with. . . [the professional appraisal standards], regardless of missing opinion verbiage or certifications” and that “[n]either of these items affects the competency or technical accuracy of the review.” However, the Park Service stated that “in the future” it would “ensure that [appraisal] standards are followed.”

Office of Inspector General Reply. We believe that our conclusions are substantiated by the deficiencies found in 40 of 42 appraisal reviews. Moreover, the opinions and certifications required by professional appraisal standards are considered to be minimum requirements for “competent” appraisal reviews. As such, we believe that the “competency or technical accuracy” of the reviews is not supported without the required opinions and certifications.

Required Appraisals

National Park Service Comments. Regarding the use of a market feasibility study rather than an appraisal to establish the value of a property at the Women’s Rights National Historic Park, the Park Service stated that it had not approved the nonprofit organization’s appraisal because of “serious deficiencies” and that its reviewer “performed his own market analysis and became the appraiser for this parcel,” as permitted under Rule 3- 1 (g) of the professional appraisal standards. The Park Service further stated that it believed the “reviewer’s final value conclusion ... was fully supported.”

Office of Inspector General Reply. We discussed the market feasibility study used by the Park Service with the Associate Appraiser, who assisted in its preparation. The Associate Appraiser stated that the analysis was called a market feasibility study instead of an appraisal because all of the applicable professional standards were not followed. The Park Service’s procedures for acquiring land require that all appraisals be prepared in accordance with the professional appraisal standards and that all appraisals be reviewed by qualified review appraisers. Because this market feasibility study was not prepared in accordance with applicable professional standards, we consider the \$70,000 amount of the purchase, which was based on the study, to be unsupported.

In its response, the Park Service stated that it considered our inclusion of the \$70,000 as a “Questioned Cost” in Appendix 1 to be “unwarranted” because a “supplemental market analysis” had been prepared after the nonprofit organization’s appraisal had been “disapproved.” We consider the classification to be appropriate because the market feasibility study, according to the “Standards,” was not an acceptable and properly reviewed appraisal.

National Park Service Comments. Regarding a property that had an unsupported \$80,000 increase in value after the original appraisal was updated, the Park Service disagreed with our “accusation” that the increase in value “may not have been warranted.”

The Park Service further stated that incorrect square footage was used to estimate the value in the first appraisal and that when this factor was corrected in the updated appraisal, the value of the property increased by \$80,000. The Park Service also said that the second appraisal was “reviewed in conformance with [the professional appraisal standards] and found to be fully supported.”

Office of Inspector General Reply. Our report did not imply that the Park Service had no basis for the increased property value. Instead, the report stated that because the original appraisal was not available, we could not determine whether it contained incorrect information. Also, our comments regarding the property owner who had refused the Park Service’s first offer and who subsequently informed the Park Service that the original, approved appraisal contained incorrect square footage was based on an interview with a Park Service official. The absence of the original, approved appraisal (which the Park Service was required to retain) and the 40 percent increase in the appraised value of the property over the original appraised value (which was attributable to information provided by the property owner) led to our conclusion that the updated appraised value was not warranted. Also, we found that the second appraisal was not reviewed “in conformance” with the professional appraisal standards and was not “fully supported.” In its review of the updated appraisal, the Park Service did not include any of the appraisal review standards’ required four opinions and included only one of the required seven certifications.

In its response, the Park Service stated that it considered our inclusion of the \$80,000 amount as a “Questioned Cost” in Appendix 1 to be “unwarranted” because the property value was based on an approved appraisal. We consider the classification to be appropriate because the Park Service had no support for the \$80,000 increase in property value (the difference between the undocumented \$200,000 original, approved appraisal and the \$280,000 updated appraisal that was not reviewed in conformance with the professional appraisal standards).

B. NONPROFIT ORGANIZATIONS

The National Park Service did not take sufficient action to protect the Government's interests when it acquired land from nonprofit organizations. Specifically, the Park Service did not take the opportunity to negotiate a lower purchase price. Guidance on acquiring land from nonprofit organizations is contained in the Department's "Clarification to August 10, 1983 Guidelines for Transactions Between Nonprofit Organizations and Agencies of the Department of the Interior," issued in August 1995; the Park Service's Procedures Manual; and Park Service policy memoranda. The Park Service, however, did not choose the option in the "Guidelines" that would have enabled it to attempt to negotiate land acquisitions at less than fair market values. As a result, the Park Service did not take full advantage of the opportunity to achieve savings of as much as \$3.2 million, which represented the differences between the nonprofit organizations' purchase prices and the selling prices of certain lands conveyed to the Park Service.

Guidelines

The Department's "Guidelines" established the policy that bureaus could pay either "the fair market value of the property, based upon the bureau-approved appraisal" or "the purchase price paid by the nonprofit organization to acquire the property from a third party, not to exceed the appraised fair market value approved by the acquiring bureau, plus related and associated expenses from a list approved by the Assistant Secretary for Policy, Management and Budget." To exercise this option, bureaus needed to enter into agreements with nonprofit organizations. These agreements, called letters of intent,³ established terms under which nonprofit organizations buy land for possible conveyance to the Park Service.

Although the "Guidelines" enables bureaus to negotiate the purchase price of land obtained from nonprofit organizations at amounts less than the appraised value, the Southeast Region did not take advantage of this option. According to Southeast Regional Office officials, the option was not chosen because the Director of the Park Service issued a transmittal memorandum with the August 1995 "Guidelines" stating that the Park Service would not

³ According to **Departmental** and Park Service guidelines, a letter of intent should be used whenever a nonprofit organization seeks prior assurance from the Park Service or the Park Service requests the assistance of a nonprofit organization in a proposed acquisition. The purpose of the letter of intent is to provide the nonprofit organization with prior assurance of the Park Service's interest in and intent to take conveyance of land acquired by the nonprofit organization. At a minimum, the letter of intent is required to identify the land desired by the agency; state the estimated value of the land subject to future appraisal; state the projected time frame for when the agency intends to acquire the property; and contain a statement that if the agency is unable or declines to purchase the land, the Federal Government is not liable to the nonprofit organization for the disposition of the land. Letters of intent compel both the Government and the nonprofit organizations to abide by guidelines that, for example, provide the Government with the right to inspect the nonprofit organization's records and financial information.

implement this option. Officials responsible for the Northeast and the National Capital Regional Offices stated that they did attempt to negotiate with nonprofit organizations to obtain a better price for the Government, although there was no documentation in the files showing that such negotiations had taken place.

We found that in 10 of the 21 transactions reviewed, the nonprofit organizations' purchase prices were equal to or more than the prices at which the property was sold to the Park Service. In these cases, nonprofit organizations paid \$4 million for properties that they sold to the Government for \$3.8 million. For example, a nonprofit organization provided \$130,000 of financial assistance, which enabled the Park Service to pay the appraised value of \$1.52 million for land that was purchased from a private landowner for \$1.65 million.

However, for the 11 other transactions, nonprofit organizations paid \$3.7 million for properties that they sold to the Government for \$6.9 million, or a difference of \$3.2 million. Two of the 11 transactions were at the Northeast Region, where properties costing nonprofit organizations \$575,000 were sold to the Government for \$658,000, or a difference of \$83,000. The other nine transactions involved the Southeast Region, where nonprofit organizations paid \$3.1 million for properties that were sold to the Government for \$6.2 million, or a difference of \$3.1 million. For example:

- The Park Service paid \$3.1 million on October 3, 1997, for property that a nonprofit organization had purchased on July 1, 1996, for \$1.25 million without attempting to negotiate a better price for the Government. Park Service officials stated that the payment of the appraised value for the land was in accordance with Park Service policy.

- The Park Service paid \$468,000 on October 1, 1996, to acquire property that a nonprofit organization had purchased on July 16, 1996, for \$259,500. Park Service officials told us that the payment was made in accordance with Park Service policy and that no attempt had been made to negotiate a lower price to the Government.

In our opinion, by not negotiating the purchase price when buying land from nonprofit organizations, the Park Service did not take full advantage of the opportunity to achieve savings of as much as \$3.2 million, the differences between the nonprofit organizations' purchase prices and the selling prices of lands conveyed to the Park Service.

Recommendation

We recommend that the Director, National Park Service, ensure that land acquisition officials comply with the Department of the Interior's "Clarification to August 10, 1983 Guidelines for Transactions Between Nonprofit Organizations and Agencies of the Department of the Interior" and rescind the directive that does not allow the use of the option to negotiate the purchase price under the "Guidelines."

National Park Service Response and Office of Inspector General Reply

In the April 30, 1999, response (Appendix 2) to the draft report from the Director, National Park Service, the Park Service did not specifically address the recommendation. Therefore, the Park Service is requested to reconsider the recommendation, which is unresolved (Appendix 3).

Regarding the recommendation, the Park Service stated that it believed it was “in complete compliance with the Department’s Nonprofit ‘Guidelines’” and that the “Guidelines” already allows it to negotiate for property by paying either fair market value or “such lessor figure at which the nonprofit offers to sell the property.” The Park Service also said that if the “[Office of Inspector General] feels that it is necessary- to rescind, change or modify any portion of the ‘Guidelines’ to allow us [the Park Service] to negotiate, we recommend that this be taken up with the Department [of the Interior].”

Because the “Guidelines” allows Department of the Interior bureaus to negotiate the purchase price of land purchased from nonprofits, we do not believe that changes to the “Guidelines” are needed. However, we found that Park Service personnel in the Southeast Region had interpreted the Park Service Director’s guidance, which limited the options available under the “Guidelines,” as precluding the Park Service from negotiating land acquisitions at less than fair market value. Thus, if the Director’s guidance authorizes Park Service personnel to negotiate with nonprofit organizations for land acquisitions at less than fair market value, we believe that this guidance has been misinterpreted. Accordingly, we believe that the Park Service should rescind or clarify the Director’s guidance so that Park Service personnel are authorized to obtain less than fair market prices in negotiating land acquisitions with nonprofit organizations, in accordance with the Departmental “Guidelines.”

Additional Comments on Audit Finding

In its response, the Park Service disagreed with our statement that it “did not take advantage of the opportunity to achieve savings of about \$3 million, which represented the differences between the nonprofit organizations’ purchase prices and the selling prices of lands conveyed to the Park Service.” The Park Service said that “because in most cases where the purchase price paid by the non-profit was lower than the Service’s approved appraised value, we [the Park Service] have at least verbally attempted to negotiate a sale price at the lower amount.” The Park Service further stated that it had no documentation to show that these negotiations occurred but that it would document the negotiations in the future. In addition, the Park Service stated that none of the 11 properties cited in the report could have been purchased for less because “[u]sually, we know up front if the nonprofit will sell for less than the appraisal or donate.” Referring to the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (Public Law 91-646), the Park Service stated, “As long as

[this law] requires us, to offer the approved appraised value, regardless of purchase price, our opportunity for potential savings will be limited.”

Although the Park Service, in its response, stated that it attempted to negotiate with nonprofit organizations “in most cases” to obtain properties at the price paid by the organizations and that none of the report’s 11 purchases could have been purchased for less than the appraised market value, we found these statements to be inconsistent with statements made by Park Service Southeast Region officials during our audit. Although officials at the Northeast and National Capital Regional Offices said that they attempted to negotiate a favorable price for the Government, officials at the Southeast Regional Office, where 9 of the 11 transactions took place, said that they did not attempt to negotiate the purchase price. Southeast Region officials said that the Park Service Director’s guidance authorized them to offer a nonprofit organization only the amount of the property’s fair market value but that they could accept a lower price offered by the organization. Based on the officials’ comments, we concluded that the Southeast Region did not negotiate with nonprofit organizations to obtain land at less than fair market value because of the Director’s guidance.

C. CONSERVATION EASEMENTS

The National Park Service did not properly establish the amount of compensation paid for the two conservation easements reviewed. Section 1.1 of the Park Service's Acquisition Procedures Manual requires the Park Service to obtain only the minimum interest in acquired lands necessary to protect park resources, and the "Uniform Appraisal Standards for Federal Land Acquisitions" and the Park Service's Land Acquisition Procedures Manual contain guidelines on preparing and updating appraisals. The Park Service, however, in an attempt to facilitate the acquisition of conservation easements that it considered to be vital to the protection of the scenic environment at two parks, (1) obtained reappraisals at one park, which may have resulted in its paying \$2.6 million more than fair market value to obtain a conservation easement and in insufficient funds to acquire other higher priority property, and (2) did not obtain a valid appraisal at another park and therefore had insufficient support for a \$588,000 conservation easement.

The Park Service purchases conservation or scenic easements to maintain the aesthetic value of park environments. Such easements place restrictions on the landowners' use of their land. According to Section A-20 of the "Standards," agencies are required to compensate landowners for the financial losses caused by the placement of restrictions on their properties. To determine the fair market value of easements, appraisers should estimate the difference in the value of properties before and after restrictions are imposed. Regarding the purchase of conservation easements, Section 1.1 of the Manual requires the Park Service to "[use] to the maximum extent practical cost-effective alternatives to direct purchase of privately owned lands and, when acquisition is necessary, acquire or retain only the minimum interests necessary to meet management objectives."

During fiscal years 1995 through 1997, the Park Service purchased 23 easements, costing \$9.0 million, including 2 easements, costing \$7.2 million, at the sites visited. We reviewed the two easements at the sites visited and identified the deficiencies described in the paragraphs that follow.

Acadia National Park. In 1991, owners of an island outside Acadia National Park but within the Park's general planning area contacted the Park Service to discuss the Park Service's interest in obtaining an easement on the property. At that time, the island was not one of the Park's land acquisition priorities; thus, Park officials suggested that the owners contact local, state, and national conservancy organizations which might be interested in acquiring the island. However, according to Park Service files, none of these organizations had adequate funding, so action was not taken to purchase the property. Subsequently, the Park Service conducted a study which determined that purchase of a conservation easement on the island would be appropriate. In August 1993, the Park Superintendent and landowners agreed to the placement of a conservation easement on about 4,300 of the island's 4,560 acres to protect existing natural, ecological, scenic, and cultural resources; preserve the traditional shorefront view; and limit residential and commercial development.

An appraisal completed in July 1994 estimated the value of the entire tract at \$5.9 million and the value of the conservation easement at \$4.1 million. Although this appraisal was reviewed and approved, there was no record in the Park Service's files that an offer was made to the landowners based on the appraisal. A Park Service official stated that the landowners did not agree with the appraised value.

About 5 months later, in December 1994, the Park Service obtained a reappraisal of the easement. The appraiser was directed by the Park Service to use a "different scope of work," which entailed segmenting the property into five separate tracts and assigning a value to each tract. Using this method, the appraiser estimated the value of the land at \$7.9 million and the value of the easement at \$4.7 million. The Park Service offered \$4.7 million to the landowners, who rejected the offer.

In March 1995, the Park Service obtained a second reappraisal of the conservation easement. The appraiser was directed to use another method to revalue the economic loss that would result from the placement of the easement. This method involved segmenting the property into five separate tracts, as well as excluding from consideration two parcels totaling 250 acres upon which the development of 18 dwellings was allowed. Using this method, the value of the entire tract remained at \$7.9 million, but the value of the easement increased to \$6.7 million. In March 1995, the Park Service offered to buy the easement for \$6.7 million, and the landowners accepted the offer.

In regard to the acquisition of this easement, there was no documentation provided to justify the reappraisals after the initial appraisal had been reviewed and approved by the Park Service, and there was no information in the file indicating that the real estate market or the highest and best use of the land had changed sufficiently to require reappraisals. In addition, there was no evidence that greater restrictions were imposed or needed to be imposed on the property after the initial appraisal. As such, we believe that there was no basis for the increased valuation of the easement from the initial appraisal of \$4.1 million to the acquisition cost of \$6.7 million, or a \$2.6 million difference. Moreover, at the time the easement was acquired, there was a \$24.5 million backlog of land within Park boundaries that had been identified for acquisition, although the easement was outside Park boundaries (but within the Park's general planning area). Also, the Park had a backlog of donated land awaiting the processing of title transfers. Because the Park Service purchased the easement (which cost \$6.7 million of the \$7 million available to the Park in fiscal year 1995 for land acquisitions), it did not have sufficient money to buy available property within the Park, appraised at \$1.4 million, and to obtain title and ownership of donated property, which would cost another \$200,000 to process.

Park Service officials said that multiple reappraisals had been performed and action had been taken to obtain this easement because the easement became the highest priority in that it

presented a “unique opportunity” to protect almost an entire island. The officials further stated that the landowners were willing sellers but that they wanted additional compensation.

Assateague Island National Seashore. In 1996, to protect the scenic view from the Assateague Island National Seashore’s visitor center, the Park Service purchased a conservation easement on 84 acres of nearby shoreline. The easement prohibited residential development on this property but allowed the construction of an 18-hole golf course. This easement was purchased from a nonprofit organization, which had bought the easement at the Park Service’s request. Although the nonprofit organization purchased the easement for \$525,000, the Park Service paid \$588,000 for the property based on the easement valuation in an appraisal obtained by the nonprofit.

In our opinion, the Park Service purchased this easement without having obtained a valid appraisal because the appraisal obtained by the nonprofit organization, which was reviewed and accepted by the Park Service, did not comply with Park Service regulations and the “Standards.” Specifically, the appraisal submitted by the nonprofit organization provided an estimate of the value of other larger and adjacent properties rather than the value of the easement. Moreover, Section C-3 of the “Standards” states, “Although the appraiser is an advocate of his opinion, there must be nothing in his testimony or demeanor that suggests advocacy for his client’s interest.” Because the appraisal was based on client instructions and prepared for the “internal use” of the client, we consider the appraisal not to be impartial and thus not in compliance with Section C-3 of the “Standards.”

The Park Service’s Chief Appraiser at the Washington Office stated that the Washington Office would not have approved the nonprofit appraisal and that the field office which reviewed the appraisal should have obtained another appraisal. However, we found that the Washington Office had not reviewed the appraisal prior to our review and that there was no requirement for the field office to send the appraisal to the Washington Office for review and approval. Park Service field office officials said that they accepted the appraisal because they wanted to expedite the purchase of the property to prevent planned development which would have compromised the scenic views at the nearby park visitor center.

Recommendations

We recommend that the Director, National Park Service:

1. Require that documentation be prepared for reappraisals obtained less than 1 year after the original appraisal was approved to show that the updates were warranted based on changes in market conditions, highest and best use, and/or the need to impose additional restrictions on land use.
2. Establish controls to ensure that appraisals are prepared properly and are based on objective and independent estimates of land values.

National Park Service Response and Office of Inspector General Reply

In the April 30, 1999, response (Appendix 2) to the draft report from the Director, National Park Service, the Park Service concurred with Recommendations 1 and 2. Based on the response, we consider Recommendation 2 resolved but not implemented and request that the Park Service reconsider its response to Recommendation 1, which is unresolved (see Appendix 3).

In its response, the Park Service stated that it “fully concurred” with Recommendation 1 **and** that as part of its “contracting process, for appraisal updates, [it] should be documenting any changes that could potentially effect the original value estimate.” The Park Service further stated that it would “take steps to immediately confirm that our current policies are being followed.”

We do not believe that the Park Service’s concurrence was fully responsive to the recommendation. Specifically, the Park Service stated that by ensuring compliance with its current policies, it would implement corrective action. However, during our audit, we found no Park Service policy that required written justification (based on factors such as changes in market conditions, highest and best use, and/or the need to impose additional restrictions on land use) for reappraisals which were obtained less than 1 year after the original appraisal was approved. Therefore, the Park Service is requested to reconsider its response to the recommendation and, if such a policy has been issued, to provide information and/or a copy of the policy.

Additional Comments on Audit Finding

In its response, the Park Service provided additional comments on the finding. The Park Service’s comments and our replies are as follows:

National Park Service Comments. Regarding the first acquisition discussed in this finding: the purchase of a 4,000-acre easement at Acadia National Park for \$6.657.000. the Park Service said that it did not agree that it paid more than \$2.6 million over the fair market value or that other higher priority properties should have been acquired. The Park Service said that the purchase decision was based on “a resource management decision made at the park level” and that this decision “is a dynamic one, depending on the situation at that particular time, taking into account such items as the mission of the park, threat to the resource, willing or unwilling seller, available funding, etc.” The Park Service further said that the property was “a high priority,” that the easement restrictions “were needed to protect the resource,” and that it “firmly believe[d]” it paid “fair market value for the easement acquired.”

Office of Inspector General Reply. We concluded that the Park Service paid \$2.6 million more than the fair market value for the subject easement based on the facts that the Park Service had no documentation to show that (1) the original, approved appraisal was inaccurate or improperly prepared and reviewed and (2) a reappraisal was needed (based on changes in the market value or the highest and best use of the property or on the need for additional restrictions on land use). We believe that the easement acquired was no more restrictive than the easement described in the initial appraisal. Thus, we found no justification for Park Service obtaining two additional appraisals, which increased the value of the easement from \$4.1 million to \$6.7 million (a \$2.6 million difference).

In its response, the Park Service took exception to our including \$2.6 million as “Funds To Be Put To Better Use” in Appendix 1, stating that these funds “were put to proper use in protecting park resources.” However, we found no justification for the additional amount paid for the easement and no benefit to the public from the reappraisals.

Regarding the statement that the purchase of the easement did not result in “insufficient funds [being available] to acquire other higher priority property,” we found that before the owners of the easement property offered to sell the property to the Park Service, the Park Service had not identified this property (which is outside park boundaries) as a priority land acquisition. However, at that time, the Park Service had identified other parcels of land within park boundaries as acquisition priorities. After the purchase of the easement, the Park Service did not have sufficient funds to acquire the lands within park boundaries that previously had been considered priority purchases.

National Park Service Comments and Office of Inspector General Reply. Regarding the purchase of the 84-acre easement at Assateague Island National Seashore for \$588,000, the Park Service stated that “the appraisal used to establish just compensation did not meet [the “Standards”] and a second appraisal should have been procured.” However, in its response, the Park Service “disagree[d] with the amount in question” and estimated “that approximately only \$168,000 of the purchase price should be considered questionable.” Because the Park Service agreed that the appraisal did not meet standards and provided no justification for its statement that only \$168,000 of the \$588,000 of “Questioned Costs” should be “considered questionable?” we made no adjustments to the amount reported in Appendix 1.

D. BUSINESS RELOCATION PAYMENTS

The National Park Service's Southeast Regional Office did not maintain sufficient documentation to support relocation payments made to businesses that were moved as a result of land acquisitions. The Code of Federal Regulations (49 CFR 24.207) requires that requests for relocation payments be supported by documentation supporting the expenses claimed. However, the Park Service's Southeast Region paid business owners for claims that were not supported by adequate documentation to expedite the relocation of displaced property owners and tenants prior to the 1996 Summer Olympics. As a result, the Park Service did not have adequate assurance that payments for relocation costs totaling \$5 1,700 were reasonable or justified, and it made a duplicate relocation payment of \$1,700.

Of the three regional offices visited, only the Southeast Region had reported business relocation payments exceeding \$5,000 during fiscal years 1995 through 1997. We reviewed all 13 payments at this region, totaling \$181,747, and found that 3 payments, totaling \$51,700, were not supported by sufficient documentation and that 1 payment, for \$1,700, was a duplicate payment for expenses compensated previously. The four payments are discussed as follows:

- The Code of Federal Regulations (49 CFR 24.303) authorizes payment for actual moving and related expenses that agencies deem necessary for services such as packing, transporting, unpacking, and storing business personal property. The Code of Federal Regulations (49 CFR 24.304) also authorizes payments not to exceed \$10,000 for actual expenses incurred in relocating and reestablishing small businesses, such as repairs or improvements to replacement property required by law, redecoration or replacement of soiled or worn surfaces at the replacement site, and professional services related to the purchase or lease of a replacement site. We found, however, that one business owner who received two payments totaling \$72,750 for moving expenses (\$62,750) and business reestablishment expenses (\$10,000), received moving expense payments of \$36,700 and reestablishment expenses of \$10,000, which were not supported by receipts to document that these expenses were incurred. Although the claimant provided the Park Service with an estimate of \$36,700 for moving expenses, Park Service files contained no vendor invoices or other documentation showing that these costs were incurred by the claimant. Similarly, Park Service files contained only two handwritten proposals as support for the reestablishment expenses claim of \$12,850 (for which payment of \$10,000 was made), with no vendor invoices or other documentation to show that these costs were incurred by the claimant.

- The Code of Federal Regulations (49 CFR 24.303) states that if a displaced person elects to take full responsibility for a move, the agency may pay the person's self-moving expenses in an amount not to exceed (1) the lower of two acceptable bids or (2) estimates obtained by the agency or prepared by qualified staff. The Code allows the agency discretion to approve a bid or estimate for a low cost or uncomplicated move based on a single bid or

estimate. We found that four business owners were each paid \$5,000 to personally move their businesses, one of whom was paid an additional \$1,700 for reestablishment expenses. According to a Park Service **official**, the Park Service called a local moving company and described the nature of the businesses and the items to be moved to facilitate the moves of these four businesses. The official stated that the moving company provided verbal estimates of moving expenses for the businesses and that, on that basis, the Park Service prepared written estimates of the costs of three of the moves. According to the official, the Park Service “forgot” to prepare the written estimate for the fourth move. As a result, the Park Service did not have documentation to support the self-move payment of \$5,000 made to one of four claimants.

- One of the business owners received a self-move payment of \$5,000 and another payment of \$1,700 for business reestablishment expenses. The invoice supporting the \$1,700 payment showed that the funds were used to pay for a storage building to shelter business property at the owner’s residence. However, the \$5,000 self-move payment was based on a Park Service estimate of \$5,475, which included \$2,100 for storage costs. As such, we consider the additional payment of \$1,700 to be compensation for storage expenses that were reimbursed previously.

Officials at the Southeast Region said that they had not obtained the required documentation so that they could expedite the relocations of business owners whose vacated sites were needed for the 1996 Summer Olympics.

Recommendations

We recommend that the Director, National Park Service:

1. Ensure that the payments of relocation claims are made in accordance with Park Service procedures.
2. Obtain documentary support for payments of \$5 1,700 (\$36,700 of moving expenses, \$10,000 of reestablishment expenses, and \$5,000 of unsupported self-move costs) or seek recovery of such reimbursements.
3. Recover the \$1,700 overpayment of storage costs.

National Park Service Response and Office of Inspector General Reply

In the April 30, 1999, response (Appendix 2) to the draft report from the Director, National Park Service, the Park Service concurred with all three recommendations. Based on the response, we consider Recommendations 1, 2, and 3 resolved but not implemented (see Appendix 3).

Additional Comments on Finding

In its response (page S), the Park Service said that it agreed that “there was a lack of formal supporting documentation” for payment of relocation expenses. However, in a different part (page 1) of its response, the Park Service stated that it believed “the questionable \$5 1,700 payment for business relocation to be reasonable and justified once all the necessary documentation is obtained.”

Since the Park Service did not provide documentation to support its statement that the business relocation payments of \$5 1,700 were “reasonable and justified,” we have not deleted the \$5 1,700 as a “Questioned Cost” in Appendix 1.

E. MANAGEMENT INFORMATION SYSTEM

The management information system of the National Park Service's Land Acquisition Division contained data that were inaccurate and incomplete. Specifically, the system did not contain information on seven land purchases, totaling \$1.1 million, and 11.4 percent of the system's required data fields on land purchases made during fiscal years 1995 through 1997 were not completed. Office of Management and Budget Circular A- 130, "Management of Federal Information Resources," requires that Federal agencies "record, preserve, and make accessible sufficient information to ensure the management and accountability of agency programs." Also, Office of Management and Budget Circular A-123 (revised), "Management Accountability and Control," requires Federal agencies to ensure that "reliable and timely information is obtained, maintained, reported and used for decision making." According to Park Service officials, system data were not complete and accurate because the Park Service had not implemented quality control procedures to validate system data or to ensure that erroneous data from a previous management information system were not entered into a newly installed system. As a result, the Park Service did not have reliable information for tracking and managing land acquisition activities.

To evaluate the accuracy and completeness of the management information system's data at the Division's Northeast, National Capital, and Southeast Regions, we compared selected land acquisition information recorded in the system with information recorded in the Park Service's official accounting system, the Federal Financial System. We found that the Northeast Regional office did not enter six land transactions, costing \$492,000, into the management information system and that the National Capital Region did not enter one transaction, costing \$650,000. Regional officials said that seven transactions were not entered because the regions did not always have sufficient staff to properly enter all data and that there were no procedures to perform accuracy checks or to reconcile financial system data with management information system data.

We also reviewed the required information recorded in the management information system for 25 land acquisition transactions to determine whether all required information, such as appraisal dates, offer dates, purchase amounts, acres purchased, and closing dates, was included. We found that 70 of the 550 required data fields for the 11 selected transactions at the Northeast Region, 18 of the 100 required data fields for the 2 selected acquisitions at the North Capital Region. and 55 of the 600 required data fields for the 12 selected acquisitions at the Southeast Region were not completed. In total, the system did not include information on 143 of the required 1,250 data fields selected for testing, or 11.4 percent of the data fields.

According to Park Service officials, all of the required information may not have been included or entered into the current management information system. established in November 1997, because (1) data from the previous system may not have been properly integrated into the new system (for example, some new data fields in the new system did not

exist in the old system); (2) the land acquisition staff had not received sufficient training on correcting system errors; and (3) no quality control system had been implemented to monitor, identify, and ensure that the system contained and maintained complete and accurate data.

Because information in the management information system was incomplete and inaccurate, Park Service managers did not have reliable information for tracking and managing land acquisition activities.

Recommendations

We recommend that the Director, National Park Service, ensure that:

1. Quality control procedures are established and training is provided at the field-office level so that management information system data are current, complete, and accurate.

2. Information in the management information system is reconciled, to the extent feasible, to the official accounting information in the Federal Financial System on at least an annual basis.

National Park Service Response and Office of Inspector General Reply

In the April 30, 1999, response (Appendix 2) to the draft report from the Director, National Park Service, the Park Service concurred with Recommendation 1 and nonconcurred with Recommendation 2. Based on the response, we consider Recommendation 1 resolved but not implemented and request that the Park Service reconsider its response to Recommendation 2, which is unresolved (see Appendix 3).

Regarding Recommendation 2, the Park Service stated that it did “not believe the data in the MIS [Management Information System] can be reconciled with the FFS [Federal Financial System] with any degree of accuracy. The data is input differently in the two systems and at different times. Any reconciliation would be extremely difficult and produce dubious results.” The Park Service also said that the management information system was not part of the National Park Service’s financial system and thus should not be subject to Office of Management and Budget regulations. In addition, the Park Service said that its management information system “is an internal database used to track workload and project status only.”

We recognize that the Park Service’s management information system, which contains land acquisition data, and its financial accounting system differ in purpose, data entry, and data content. However, both systems contain information on land acquisitions, and, to the extent that the same information is or should be recorded in both systems, we believe that this information should be reconciled to ensure the completeness and accuracy of land acquisition data.

The Park Service also stated that its management information system is an “internal database used to track workload and project status only” and therefore was not subject to Office of Management and Budget Circulars A- 123, “Management Accountability and Control,” and A-130, “Management of Federal Information Resources.” We consider both of these regulations to be applicable to the Park Service’s management information system, which is used to record and track land acquisition information. Circular A-123 pertains to a requirement that Federal agencies ensure that “reliable and timely information is obtained, reported and used for decision making,” and Circular A- 130 requires Federal agencies to ensure that “records management programs provide adequate and proper documentation of agency activities.”

Additional Comments on Finding

In its response, the Park Service said that it disagreed that it did not have reliable information to manage its acquisition program because “once the transition and testing phase was completed the information was available to properly manage our program.” However, the Park Service did not provide any documentation during our review to show that corrective actions on the noted deficiencies in the management information system had been taken.

OTHER MATTERS

We found that the Southeast Regional Office did not obtain independent appraisals when it acquired land from nonprofit organizations. Although Departmental and Park Service guidance allows landowner appraisals to be used for acquisitions, subject to Park Service review and approval, we found that at two (the Northeast and National Capital Regional Offices) of the three offices visited, the Park Service generally obtained its own independent contract appraisals for acquisitions involving both private parties and nonprofit organizations. However, the Southeast Regional Office's practice was to obtain independent contract appraisals when it acquired land from private landowners and to accept appraisals obtained by nonprofit organizations, subject to the review and approval of the Park Service, when it purchased land from these organizations. For example, of the 21 nonprofit organization transactions reviewed, the National Capital and the Northeast Regions obtained independent appraisals in 9 of 11 transactions, whereas the Southeast Region obtained independent appraisals for only 1 of 10 transactions (examples are provided in the paragraphs that follow). Southeast Regional officials said that they used appraisals provided by nonprofit organizations because these organizations usually initiated the acquisitions and had obtained the appraisals before the Park Service was involved in the transaction. The officials also said that they did not obtain additional independent appraisals because they wanted to avoid lengthening the acquisition process.

Land acquisition officials at the offices visited and at the headquarters agreed that obtaining independent appraisals would be beneficial because it would enable the Park Service to provide some level of control over the appraisers. We believe that independent appraisals may result in market values that are lower than the estimated values in appraisals obtained by the property owners, as illustrated in the following examples:

- The owner of an 8,580-acre tract obtained two appraisals that valued the property at \$16 million and \$19 million, respectively. The Park Service's Southeast Region obtained an independent appraisal that valued the property at \$6.6 million. The landowner offered to sell the property for \$7.6 million, which the Park Service accepted after obtaining Congressional approval (which is required for payments that exceed the appraised value). In this case, by obtaining an independent appraisal, the Park Service obtained land at \$8.4 million less than the landowner's appraised value.

- A nonprofit organization that owned a 78.2-acre tract obtained an appraisal that valued the property at \$5.1 million. The organization asked the Park Service's Southeast Region to use the appraisal to establish the purchase price. The Region determined that the appraisal did not meet Federal standards and prepared an in-house appraisal which valued the property at \$3.1 million. The organization accepted the \$3.1 million offer, which was \$2 million less than the value of the land as estimated in the organization's appraisal.

- The owner of an improved .45-acre tract obtained an appraisal that valued the property at \$320,000. The Park Service's Southeast Region obtained an independent appraisal which valued the property at \$280,000. The landowner accepted the Park Service's \$280,000 offer, which was \$40,000 less than the property's value as estimated in the appraisal obtained by the property owner.

Based on the previous examples, we believe that the Park Service has an opportunity to reduce land acquisition costs by obtaining independent appraisals. Accordingly, we suggest that the Park Service issue guidance requiring the preparation of in-house or independent contract appraisals for all land acquisitions.

National Park Service Comments and Office of Inspector General Reply

In the April 30, 1999, response (Appendix 1) to the draft report from the Director, National Park Service, the Park Service stated that it believed the three examples in the report illustrating the opportunity to reduce acquisition costs by obtaining independent appraisals were "erroneous and misleading." The Park Service further said that "the report falsely assumes that the independent appraisals, used in each of the examples, would have been approved for just compensation purposes" and that none of the appraisals met appraisal standards. In addition, the Park Service said that "any comparison to the differences between these appraisals and our appraisals produces only illusory cost savings."

The three examples in our report describe the lower market values in appraisals that were provided by independent appraisers as compared with higher market values for the same property in appraisals that were provided by appraisers hired by the property owner. We also stated that one of the appraisals obtained by the property owners did not meet appraisal standards and made no representations that reportable savings (Appendix 1) were identified. We believe that the Government's interests would be better protected if the Park Service obtained independent appraisals, a belief that was expressed by all Park Service land acquisition field personnel whom we interviewed during our audit. Also, in the report section "Appraisal Standards," we provided examples of appraisals that we considered to be based on inadequate support. In several of these examples, the appraisals, which had been obtained by the property owners and approved by the Park Service, established what we believe were higher than warranted market values.

CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding Area</u>	<u>Funds To Be Put To Better Use</u>	<u>Questioned costs</u>
Appraisals		\$150,000
Conservation Easements	\$2,600,000	588,000
Business Relocation Payment	<u>1.700</u>	<u>51.700</u>
Total	<u>\$2,601,700</u>	<u>\$789.700</u>



United States Department of the Interior

NATIONAL PARR SERVICE

1849 C Street, N.W.
Washington, D.C. 20240

APR 3 0 1999

IN REPLY REFER TO:

L1415(2540)

Memorandum

To: Assistant Inspector General for Audits

From: *@Director

Subject: OIG Draft Audit Report on Land Acquisition Activities, National Park Service (Assignment No. E-IN-NPS-01 O-97)

The National Park Service has completed its review of the subject report. While the audit, as noted in the cover memorandum from the Assistant Inspector General for Audits, found that the land acquisition program was generally conducted in accordance with applicable laws and regulations, several aspects of the program were singled out for criticism by OIG. As the following comments illustrate, the Service does not agree with all of the conclusions reached by the auditors.

Appendix – Classification of Monetary Amounts

As summarized in the Appendix, the report identifies a total of \$2,601,700 in “Funds To Be Put To Better Use.” (As noted in the report introduction on Page 1, during the time period studied, the Service “used appropriated funds totaling \$169 million to acquire 69,000 acres of land”.) In fact, \$2,600,000 of the \$2,601,700 were put to proper use in protecting park resources, by acquiring an easement at Acadia National Park. We agree there is some question as to the remaining \$1,700, which involves a business relocation payment at Martin Luther King, Jr. National Historic Site. This equates to only .0001 percent of \$169 million obligated during fiscal years 1995 through 1997.

The report also identified a total of \$789,700 in “Questioned Costs.” In our opinion, only \$168,000 of the \$789,700 should be considered a questionable cost. We believe the \$150,000 in questioned appraisal costs is unwarranted, since we had an approved appraisal accounting for \$80,000 of this amount. The remaining \$70,000 was for a purchase at Women’s Rights National Historical Park. The purchase price was based on a supplemental market analysis written by an NPS review appraiser after disapproving a nonprofit appraisal of \$80,000. We also believe the questionable \$51,700 payment for business relocation to be reasonable and justified once all the necessary documentation is obtained. Finally, the report questioned the purchase of an easement at Assateague Island National Seashore for \$588,000. We agree this appraisal did not meet Federal appraisal

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standards, but disagree as to the amount in question. After revisiting this report we estimate that approximately **only** \$168,000 of the purchase price should be considered questionable. This equates to only .01 percent of \$169 million obligated during fiscal years 1995 through 1997.

The following are our responses corresponding to specific sections of the draft audit report, including our concurrence or nonconcurrence with certain findings, the specific reasons for any nonconcurrence, and the actions taken or planned to remedy those items that are believed to be in need of remediation.

A. Appraisals

Page 4 of the draft report states that “The National Park Service did not fully comply with the established standards or implement the required procedures for preparing and reviewing appraisals of real property.”

We strongly disagree with the above statement. Except for a few isolated cases, all appraisals and reviews have met the intent of all established standards. The specific cases will be discussed under the following appropriate sections.

Adequately Supported Appraisals. Pages 5 and 6 of the draft report identify six appraisals which, in the opinion of the auditors, were not adequately supported. We disagree with this conclusion for the following reasons:

1. The first appraisal addressed was the \$3.1 million valuation of a currently inaccessible tract of land located at Chattahoochee River National Recreation Area. The report stated “. . . we concluded that the appraised value was overstated because there was no documentation to show that the land had an existing or potential highest and best use for residential development.” We believe the appraiser’s conclusion that the property did have a highest and best use for residential development was correct based on the assumption that access could be purchased from the adjacent landowner. The appraiser interviewed this landowner who stated that he would sell an access easement to his neighbor if requested.
2. The second appraisal addressed an exchange of Federal land for private land at Chattahoochee River National Recreation Area. The report stated that “We considered one appraisal to be inadequately supported because the appraiser used the recent sale of the same property to a related party to estimate the property’s market value.” We believe the appraiser appropriately considered this sale of the subject property and properly concluded it was an arms-length transaction. Section A-5 of UASFLA states, “Since compensation is measured by market value (supra, p.3), prior sales of the same property, reasonably recent and not forced, are extremely probative evidence of market value. Accordingly, the

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appraiser has an obligation to determine what the owner paid for the property.” The appraiser also presented additional sales to support his conclusion that this transaction was within the adjusted value range of the other sales.

3. The report questioned a positive 15 percent adjustment made in an appraisal of an improved parcel located at Martin Luther King, Jr. National Historic Site. We feel this upward adjustment was supported by a paired-sale analysis in the appraisal and warranted consideration of the urban renewal efforts currently taking place in the area of the subject property. The *Appraisal of Real Estate*, published by the Appraisal Institute, states that “When market evidence clearly supports differences between sales attributable to specific elements of comparison, paired data analysis can be a very effective technique.”
4. The fourth appraisal questioned in the report concerned the reason why an updated appraisal was made without a physical reinspection of the volume and quality of timber on the property. In fact, a forester who confirmed the current volume, quality and value of timber did reinspect the property. However, the appraiser was remiss by not physically reinspecting the property for the update. It should be noted that the failure of the appraiser to reinspect had no impact on the final value conclusion reached in the updated report.
5. The fifth appraisal targeted in the report involved two properties located at Martin Luther King, Jr. National Historic Site. These two properties had known contaminants, but were appraised as being free of contaminants in order to expedite the acquisition process in time for the 1996 Olympic Games. Since the NPS did not take title to the properties until the contaminants were removed, we believe the appraisals were valid for the condition of the property when it was conveyed.
6. The final appraisal identified by the report concerned a positive \$10,000 adjustment based upon a landowner’s assertion and not verified by the appraiser. We agree the appraiser was negligent by not confirming the assertion and the NPS review appraiser was remiss by not noting this in the review. This NPS review appraiser no longer works for the Service.

Appraiser Certifications. We agree with the penultimate paragraph on Page 6 of the report that 30 of 42 appraisals audited did not contain the required certifications that the appraisals were prepared in conformity with the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA). However, we strongly disagree with the statement that “. . .the Park Service did not have full assurance that the appraisers properly considered the ‘Standards’ when the appraisals were prepared and that the appraisals they prepared were valid and complete”. All appraisals used by

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the Service to establish just compensation are reviewed to assure conformance with UASFLA, regardless of what is certified by the appraiser. However, in light of this finding, we intend to direct all of our offices that UASFLA certification be included in all reports.

Prior Sales History. We agree that, as noted in the last paragraph on page 6, 6 of the 42 appraisals reviewed did not contain the 10-year history of the subject property, but strongly disagree that we did not have full assurance that the appraisals were based on complete information on which to establish the estimated value of the land. All NPS review appraisers have access to title information on all tracts being appraised. If there were any indication of a recent arms-length transaction that might influence the value of the subject tract, the reviewer would have required the sale to be discussed in the report. In the future, we will ensure 10-year histories are included in all reports.

Appraisal Reviews. We agree that, as noted on page 7 of the report, 40 of the 42 appraisal reviews did not contain 1 or more of the 4 opinions and 7 certifications required under the Uniform Standards of Professional Appraisal Practice (USPAP). However, we strongly disagree with the contention that the Service did not take required actions to ensure that the appraisals were adequately supported and that the review process was conducted in compliance with USPAP. As discussed under the Appraiser Certification section, all appraisals used by the Service to establish just compensation are reviewed to assure conformance with USPAP and UASFLA Standards, regardless of missing opinion verbiage or certifications. Neither of these items affects the competency or technical accuracy of the review. In the future, we will ensure USPAP standards are followed.

Required Appraisals. Pages 7 and 8 of the report identify two transactions in which the Service did not obtain the required appraisal or did not maintain a copy of the appraisal in its files. In the first instance, an appraisal report regarding a property at Women's Rights National Historical Park was furnished to the Service by a nonprofit conservation organization. This \$80,000 appraisal was reviewed by the Service, but could not be approved because of serious deficiencies. The reviewer subsequently did a field review and performed his own market analysis and became the appraiser for this parcel. This process, where the reviewer becomes the appraiser, is permitted under USPAP Standards Rule 3-1(g). We believe the reviewer's final value conclusion of \$70,000 was fully supported.

In the second instance we agree that a copy of the original appraisal should have been kept in the file, but disagree with the accusation that the \$80,000 increase in value between the original and the corrected appraisal may not have been warranted. The original appraisal underestimated the square footage of the building on the subject.

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Once the correct square footage was calculated, the value of the subject increased by \$80,000. **The** corrected appraisal was reviewed in conformance with UASFLA and found to be fully supported. In the future, we will ensure that **all** offers of just compensation are documented by appraisals.

Recommendations. Page 9 of the report contains three recommendations, which are repeated here, in italicized type, followed by our comments.

1. *Provide Washington Office oversight of regional offices' land acquisition activities to ensure that requirements for the preparation and review of appraisals are followed, including compliance with the "Standards."*

We fully concur with this recommendation and are currently in the process of hiring additional Washington Office staff to form oversight teams to review the land acquisition activities of all regional offices. We anticipate the oversights will begin in FY 2000. The responsible official will be the Chief, Land Resources Division.

2. *Ensure that adequately documented appraisals are prepared and approved before offers are made to purchase land.*

We fully concur that adequately documented appraisals are necessary to properly establish just compensation. We will ensure that this is accomplished by hiring additional Washington Office staff to oversee the appraisal procedures of all regional offices and the establishment of oversight teams as discussed previously. We anticipate that additional staff will be hired by the beginning of FY 2000. The responsible officials will be the Chief Appraiser and Chief, Land Resources Division.

3. *Establish a requirement for obtaining two appraisals for acquisitions that are unique, controversial, or complex or that exceed a designated high dollar value threshold.*

We do not concur with this recommendation. We do not believe it is necessary to establish a mandatory two-appraisal requirement, when our staff review appraisers currently have the authority to procure as many appraisals as necessary to assure conformance with UASFLA. This authority is not limited to either the type or value of property being appraised. We also view this requirement as being potentially costly and not an efficient use of Federal funds, considering that many appraisals for these type of properties run into the tens of thousands of dollars, and may not even be necessary. Finally, having two divergent appraisals on high value properties could put the government at a decided disadvantage if eminent domain is ultimately used to acquire the property.

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B. Nonprofit Organizations

Paragraph 1, page 10 of the report states that “. . . the Park Service did not take advantage of the opportunity to achieve savings of about \$3 million, which represented the differences between the nonprofit organizations’ purchase prices and the selling prices of lands conveyed to the Park Service.” We disagree, because in most cases where the purchase price paid by the non-profit was lower than the Service’s approved appraised value, we have at least verbally attempted to negotiate a sale price for the lower amount. We do, however, concur that there was no documentation in the file to show that these negotiations occurred. In the future we will be documenting our files to reflect these negotiations.

Regarding this matter, the report further states, on page 11, that “. . . by not negotiating the purchase price when buying land from nonprofit organizations, the Park Service did not take full advantage of the opportunity to achieve savings of as much as \$3.2 million.” The reality of the situation is that in the 11 transactions referenced in the report, though we paid more than the nonprofit purchase price, none of this property could have been bought for less (Usually, we know up front if the nonprofit will sell for less than the appraisal or donate). As long as PL 9 1-646, as amended, requires us, to offer the approved appraised value, regardless of purchase price, our opportunity for potential savings will be limited.

Recommendation. The report makes one recommendation, which is repeated here, in italicized type, followed by our comments.

We recommend that the Director, National Park Service, ensure that land acquisition officials are in compliance with the Department of the Interior’s “Clarification to August 10, 1983 Guidelines for Transactions Between Nonprofit” and rescind the directive that does not allow the use of the option to negotiate price under the “Guidelines.”

We believe we are in complete compliance with the Department’s Nonprofit “Guidelines.” The “Guidelines” already permit us to negotiate by paying either the fair market value of the property, or such lesser figure at which the nonprofit offers to sell the property. If the IG feels that it is necessary to rescind, change or modify any portion of the “Guidelines” to allow us to negotiate, we recommend that this be taken up with the Department.

C. Conservation Easements

Page 12 of the report states that the Service “. . . (1) obtained reappraisals at one park that may have resulted in paying \$2.6 million more than fair market value to

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obtain a conservation easement and resulted in **insufficient** funds to acquire other higher priority property and (2) did not obtain a valid appraisal at another park and therefore had insufficient support for a \$588,000 conservation easement.”

The first acquisition discussed was the purchase of a 4,000-acre easement at Acadia National Park for \$6,657,000. We do not agree that we paid more than \$2.6 million over the fair market value or that other higher priority properties should have been acquired. The decision to purchase any property, in terms of priority or interest necessary to protect the resource, is a resource management decision made at the park level. This decision is a dynamic one, depending on the situation at that particular time, taking into account such items as the mission of the park, threat to the resource, willing or unwilling seller, available funding, etc. The park decided that this property was a high priority and the easement restrictions were needed to protect the resource. We appraised the property based upon these easement restrictions and firmly believe we paid fair market value for the easement acquired.

The second acquisition discussed was the purchase of an 84-acre easement at Assateague Island National Seashore for \$588,000. We concur with the report that the appraisal used to establish just compensation did not meet UASFLA standards and a second appraisal should have been procured. We will take steps to prevent this from happening in the future by hiring additional Washington Office staff to oversee land acquisition procedures of all regional offices.

Recommendations. The report makes two recommendations, which are repeated here, in italicized type, followed by our comments.

1. *Require that documentation be prepared for reappraisals obtained less than 1 year after the original appraisal was approved to show that the updates were warranted based on changes in market conditions, highest and best use, and /or the need to impose additional restrictions on land use.*

We fully concur in this recommendation. As part of our contracting process, for appraisal updates, we should be documenting any changes that could potentially effect the original value estimate. We will take steps to immediately confirm that our current policies are being followed. The responsible official will be the Chief Appraiser.

2. *Establish controls to ensure that appraisals are prepared properly and are based on objective and independent estimates of land value.*

We fully concur that appraisals should be prepared properly and are based on objective and independent value estimates. We will ensure that this is accomplished by hiring additional Washington Office staff to oversee

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appraisal procedures of all regional offices and the establishment of oversight teams as discussed previously. We anticipate that additional staff will be hired by the beginning of FY 2000. The responsible officials will be the Chief Appraiser and Chief, Land Resources Division.

D. Business Relocation Payments

Page 16 of the report states that "The National Park Service's Southeast Regional Office did not maintain sufficient documentation to support relocation payments made to businesses that were moved as a result of land acquisition." The report further states, "As a result, the Park Service did not have adequate assurance that payments for relocation costs totaling \$5 1,700 were reasonable or justified, and it made a duplicate relocation payment of \$1,700."

We concur that, as regards the specific relocation payments cited in the report, there was a lack of formal supporting documentation. In all cases, formal estimates, receipts or invoices will be prepared or sought. However, we firmly believe that all payments made were reasonable or justified. If, after our review of all supporting documentation, unauthorized payments were made, we will seek recovery from the claimant.

Recommendations. The report makes three recommendations, which are repeated here, in italicized type, followed by our comments.

1. *Ensure that the payments of relocation claims are made in accordance with Park Service procedures.*

We concur with this recommendation and are currently in the process of hiring additional Washington Office staff to oversee all land acquisition procedures in the regional offices and to form oversight teams. We anticipate that additional staff will be hired by the beginning of FY 2000. The responsible official will be the Chief, Land Resources Division.

2. *Obtain documentary support for payments of \$51,700 (\$36,700 of moving expenses, 510,000 of reestablishment expenses and \$5,000 of unsupported self-move costs) or seek recovery of such reimbursements.*

We concur with this recommendation. After obtaining and reviewing all supporting documentation, if any unauthorized payments were made, we will seek recovery from the claimant. We anticipate that this will be accomplished by the end of FY 1999. The responsible official will be the Chief, Land Resources Program Center, Southeast Regional Office.

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3. *Recover the \$1,700 overpayment of storage costs.*

We concur with this recommendation. If, **after the** review of all supporting documentation, it is discovered that an overpayment was made, we will seek recovery from the claimant. We anticipate that this will be accomplished by the end of FY 1999. The responsible official will be Chief, Land Resources Program Center, Southeast Regional Office.

E. Management Information System

Page 18 of the report states that “The management information system (MIS) of the National Park Service’s Land Acquisition Division contained data that were inaccurate and incomplete.” The report further states, “As a result, the Park Service did not have reliable information for tracking and managing land acquisition activities.”

We concur that, during the audit period, the MIS was not complete and may have contained inaccuracies. These same inaccuracies existed in our old MIS and caused us to totally revise that system. Our new system utilizes a modem database and personal computers rather than an expensive main frame computer. The new system became operational, for testing purposes, in November 1997. Since we were transferring data from the old to new system, during the audit period, it would be expected that there would be inaccurate and incomplete data. Also, since the new system has new data fields, there was a transition phase for the incorporation of the old data, but all data was ultimately transferred.

We disagree with the assertion that we did not have reliable information to manage our acquisition program. Once the transition and testing phase was completed the information was available to properly manage our program. The MIS is not part of the National Park Service’s Federal Financial System(FFS) and should not fall under OMB Circular A-123 or A-1 30. The MIS is an internal database used to track workload and project status.

Recommendations. The report makes two recommendations, which are repeated here, in italicized type, followed by our comments.

1. *Quality control procedures are established and training is provided at the field office level to ensure that management information system data are current, complete, and accurate.*

We concur with this recommendation. Quality control procedures are now in place and, by the end of FY 1999, training will have been provided to all users of the system. The responsible official will be the Chief, National Program Center.

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2. *Information in the management information system is reconciled, to the extent feasible, to the **official** accounting information in the Federal Financial System on at least an annual basis.*

We do not concur with this recommendation. We do not believe the data in the MIS can be reconciled with the FFS with any degree of accuracy. The data is input differently in the two systems and at different times. Any reconciliation would be extremely difficult and produce dubious results. As previously stated, the MIS is not part of the National Park Service's Federal Financial System(FFS) and should not fall under OMB Circular A-123 or A-130. The MIS is an internal database used to track workload and project status only.

F. Other Matters

Page **20** of the report states that "We found that the Southeast Regional Office did not obtain independent appraisals when it acquired land from nonprofit organizations." The report further states that "... we believe that the Park Service has an opportunity to reduce land acquisition costs by obtaining independent appraisals."

We agree that, for some acquisitions, the Service uses appraisals furnished either by a landowner or by a nonprofit conservation organization. All of these appraisals are performed by independent fee appraisers and reviewed by an NPS review appraiser certifying that they have met both UASFLA and USPAP standards.

We believe that the three examples used to show how we had the opportunity to reduce acquisition costs by obtaining our own appraisals are erroneous and misleading. The report falsely assumes that the independent appraisals, used in each of the examples, would have been approved for just compensation purposes. None of these appraisals met UASFLA standards and any comparison to the difference between these appraisals and our appraisals produces only illusory cost savings.

In summary, the Service appreciates the effort exerted by your Office in evaluating our land acquisition program and in making recommendations for improvement. We will strive to correct the deficiencies uncovered by the draft audit.

STATUS OF AUDIT REPORT RECOMMENDATIONS

<u>Finding/Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
A.1, A.2, C.2, D.1, D.2, D.3, and E.1	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.
C.1	Management concur; additional information needed.	An action plan, including the target date and the title of the official responsible for implementation, is needed.
A.3, B1, and E.2	Unresolved	Reconsider the recommendations, and provide action plans that include target dates and titles of the officials responsible for implementation.

**ILLEGAL OR WASTEFUL ACTIVITIES
SHOULD BE REPORTED TO
THE OFFICE OF INSPECTOR GENERAL**

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