



U.S. Department of Energy
Office of Inspector General
Office of Audits and Inspections

AUDIT REPORT

Bonneville Power Administration's
Real Property Services

OAI-M-16-04

January 2016



Department of Energy
Washington, DC 20585

January 8, 2016

MEMORANDUM FOR THE ADMINISTRATOR, BONNEVILLE POWER
ADMINISTRATION

Sarah B. Nelson

FROM:

Sarah B. Nelson
Assistant Inspector General
for Audits and Administration
Office of Inspector General

SUBJECT:

INFORMATION: Audit Report on "Bonneville Power
Administration's Real Property Services"

BACKGROUND

The Department of Energy's Bonneville Power Administration (Bonneville) markets and transmits wholesale electricity to the utilities of the Pacific Northwest with a transmission system that includes more than 15,000 miles of high-voltage power lines throughout a seven-state service area. To support Bonneville's building, operation, and maintenance of transmission facilities, Real Property Services provides services such as acquisition of real property and vegetation management rights, appraisals, and real property records management. Bonneville normally acquires real property rights for transmission lines and access roads as easements to use land for a particular purpose. Real Property Services maintains acquisition information that identified approximately 2,061 acquisitions had occurred from January 2009 to July 2014, at a cost of more than \$112 million.

The Office of Inspector General received complaints alleging that Bonneville's Real Property Services management exerted pressure on appraisal staff to circumvent professional appraisal standards and created a difficult work environment. It was also alleged that an organizational conflict of interest existed because appraisers were supervised by the Real Property Services Manager, and that Bonneville paid excessive amounts for real property rights on Native American tribal lands. Given the significance of these allegations, we initiated this audit to determine whether Bonneville's Real Property Services was managed efficiently and effectively.

RESULTS OF AUDIT

Bonneville's Real Property Services was not always managed efficiently and effectively. Specifically, we received consistent testimonial evidence that supported the allegations regarding management pressure and a difficult work environment. However, we did not substantiate the allegations regarding conflict of interest and tribal payments. We identified other issues

involving potential overpayments for acquiring the rights to manage vegetation on existing easements, unauthorized real property acquisition agreements, improperly documented appraisal reviews conducted orally, and inaccurate and incomplete real property acquisition data.

Conclusions on Allegations

Management Pressure to Circumvent Appraisal Standards

Real Property Services appraisal staff told us that a former manager had exerted pressure on them to circumvent professional appraisal standards. For example, some staff indicated that they were pressured to make unsupported changes to appraisal values. However, despite this alleged pressure, staff asserted that, upon verbal advice from Bonneville's Office of General Counsel, they continued to follow professional appraisal standards. We were unable to determine whether actual changes to appraisals had been made under pressure because the files we were provided for review included only final appraisals. Current management officials told us, however, that no one would be pressured to compromise their integrity.

Difficult Work Environment

Staff also consistently stated that a difficult work environment existed because of the actions of the former manager, other Bonneville management, and a contractor. We confirmed that complaints concerning the work environment had been reported to Bonneville management, which had, in turn, taken positive corrective actions. Real Property Services staff told us the work environment had subsequently improved.

Organizational Conflict of Interest

We did not substantiate the allegation that an organizational conflict of interest existed. It was alleged that there was a conflict of interest when appraisers were supervised by the Real Property Services Manager who was also conducting negotiations. We found that the appraisers were not directly supervised by the Manager and that the Manager was not generally involved in negotiations for real property acquisitions. Similarly, an official from Bonneville's Office of General Counsel told us there did not appear to be a conflict of interest because negotiations were performed by realty specialists.

Payments for Native American Tribal Property Rights

We did not substantiate the allegation that Bonneville had paid excessive amounts for property rights on tribal lands. While we confirmed that payments did exceed appraised values, the agreed-to prices were the result of complex negotiations with tribal governments. The process for tribal acquisitions differs from other acquisitions given the tribes' inherent sovereignty to govern their lands. We also noted that Bonneville's activities to obtain tribal rights-of-way are supported by a Department of Energy – Department of the Interior study submitted to Congress in 2007, which found that negotiation was an appropriate method for determining compensation. The study also noted the unique nature of tribal acquisitions and found that tribal self-determination and sovereignty interests were important.

Management of Real Property Services

Our audit identified other issues indicating that Bonneville had not always ensured that its Real Property Services was managed efficiently and effectively. Specifically, Real Property Services:

- May have paid more than necessary for the acquisition of rights to manage vegetation on existing easements;
- Entered into real property acquisition agreements without appropriate delegated signing authority;
- Did not always document appraisal reviews and approvals done orally; and
- Did not maintain accurate and complete real property acquisition data in its information system.

Vegetation Rights

Real Property Services may have paid more than necessary for additional rights to manage vegetation on existing easements because the amount paid was based on the total value of the land included in the easement instead of the value for the additional vegetation rights being acquired. The additional rights were needed to manage (trim or remove) the vegetation in easements where rights had previously been acquired to build transmission lines. Title III of Public Law 91-646, section 301, requires that, to the greatest extent practicable, Federal agencies appraise real property to establish a value for the land rights that will be acquired before negotiations can begin. For six of the eight acquisitions of additional rights we reviewed, Bonneville paid landowners a total of \$337,463 based on the land value when the value of the additional vegetation rights acquired totaled only \$113,630. For example, Bonneville paid one landowner \$94,500, or 75 percent of the \$126,000 value of land, when the value of the additional vegetation rights being acquired was only \$15,000. Although we acknowledge that the value of the additional vegetation rights is only a starting point for negotiations and the final amount paid may be more, Bonneville may have been able to pay less to acquire the additional vegetation rights had it based its negotiations on the value of the additional vegetation rights rather than the total land value of the easement. Furthermore, this practice may not have been consistent with Bonneville's commitment to use sound business principles to set customer rates as low as possible. In fact, Real Property Services officials told us this practice ceased in June 2013 because Bonneville was reevaluating its negotiation approach.

These higher payments often occurred because negotiations with landowners for the acquisition of additional vegetation management rights were initiated before an appraisal of those rights was completed. Realty specialists cited a sense of urgency to acquire the additional vegetation management rights that Bonneville needed to comply with updated industry standards as a reason for initiating negotiations before an appraisal was completed. In addition, Bonneville had previously experienced significant vegetation-caused outages, which also contributed to the sense of urgency to acquire the additional rights. However, initiating negotiations before an appraisal was completed resulted in a realty specialist offering and subsequently paying

landowners an amount based on the value of the land instead of the appraised value of the rights being acquired. Moreover, Bonneville lacked detailed policies and procedures specific to beginning negotiations before an appraisal was done.

Delegation of Signing Authority

Realty specialists signed acquisition agreements without appropriate written delegation of signing authority or exceeded their delegated signing authority thresholds. Agreements signed without appropriate authority could result in legal actions against Bonneville unless ratifications are accomplished. In May 2013, Real Property Services management ratified agreements that were signed by realty specialists who did not have the documented delegation authority. Specifically, one realty specialist signed 535 agreements between April 2002 and May 2013, and another realty specialist signed 57 agreements between September 2009 and January 2013, without the required documented authority. More recently, in May 2014, Real Property Services ratified an agreement where the delegated signing authority was exceeded by \$150,200.

These errors occurred, in part, because realty specialists had not been formally notified of their authority levels through the use of individual delegation memoranda that outlined the terms and dollar limits of the delegated authority, as required by Bonneville's Manual Chapter 20, "Delegations of Authority to Bind the Agency." Instead, Real Property Services prepared only a matrix that listed each individual's level of authority even though the procedures required a signed acknowledgement that the delegate understands and will follow the terms of the delegation.

Oral Reviews of Appraisals

Real Property Services had not always documented appraisal reviews and approvals done orally. Bonneville's Manual Chapter 820, "Real Property Acquisition," requires that all appraisals be reviewed and approved by someone other than the individual who performed the appraisal. The purpose of an appraisal review is to determine the adequacy and appropriateness of appraisal conclusions. Although the *Uniform Standards of Professional Appraisal Practice* allows an oral appraisal review, it requires a written summary of the review be added to the work file within a reasonable timeframe. However, one Bonneville appraiser cited a backlog of approximately 50 to 75 oral reviews conducted prior to 2003, and another appraiser identified approximately 35 oral reviews from 2006 to 2009, that had yet to be documented. Appraisers told us they had conducted appraisal reviews orally in the past at the direction of management without formally documenting the review and approval. Appraisers also said that, although they were no longer conducting oral reviews, they had not been given the time to document the backlog. The lack of documentation of oral reviews is inconsistent with the requirements of *Uniform Standards of Professional Appraisal Practice*. In our opinion, the lack of formally documented reviews could raise questions regarding appraiser conclusions and ultimately affect the amount paid by Bonneville to acquire property rights.

Acquisition Data

Bonneville's Land Information System (LIS) did not always contain accurate real property acquisition data. The system is comprised of a database that maintains historical information to

demonstrate acquisitions were performed in accordance with applicable laws and procedures. LIS contains information such as tract status, owner name, location, and appraisal and acquisition amounts, and it is used for activities such as easement and permit reviews and condemnation proceedings. According to LIS guidelines, Real Property Services employees are responsible for updating LIS with appropriate information from the acquisition documentation as actions occur. Federal regulations 36 CFR Part 1220, *Records Management*, which are specifically applicable to Government records such as LIS data, contain requirements to create reliable records that are complete and accurate.

In our review of 29 acquisitions, we found 8 instances of inaccurate data. For example, in one instance, the LIS data showed an appraisal value of \$1 while the actual appraisal document showed \$849,450. In another instance, the acquisition value was entered as \$90,000; however, the source document showed \$900. These issues were generally due to input errors, such as entering information in the wrong field and inputting incorrect information. We also found that Bonneville lacked a sufficient review process that could have identified the errors needing corrective action. Specifically, records must be manually reviewed for completeness and accuracy; however, this process did not capture the errors we identified. Officials told us that LIS is an antiquated, stand-alone system containing a large amount of data that does not have automated capability, such as running exception reports to ensure data is complete.

In addition, LIS did not contain complete data for acquisition of property rights from tribes. For two tribes, we attempted to reconcile information on several property rights invoices to data in the LIS. We selected the invoices with specific property tract numbers for review, but we were unable to trace many of the property tract numbers back to LIS. Real Property Services officials acknowledged that tribal data was incomplete. One official confirmed that appraisal data in LIS for tribal acquisitions needed to be updated because the majority of tribal acquisitions were done by the former Real Property Services Manager, who had boxes of tribal acquisition documentation that were not discovered until after the manager retired. The official also stated that Real Property Services had initiated action to review and add the discovered information to LIS.

Impact and Path Forward

Until Real Property Services addresses the issues we identified, Bonneville is at increased risk of not meeting its commitments to carefully manage costs and to use sound business principles. We noted, however, that Bonneville had hired a consulting firm to work with the new Real Property Services Manager to identify a number of action areas and develop a plan to enable Bonneville to operate more efficiently and effectively. The plan is to include such items as developing and implementing policies, enhancing communication, creating targeted training, and improving accountability.

RECOMMENDATIONS

To increase the efficiency and effectiveness of Real Property Services, we recommend that the Administrator of the Bonneville Power Administration ensure the Real Property Services Manager:

1. Establish detailed policies and procedures that address initiating landowner negotiations before an appraisal of vegetation management rights is done.
2. Comply with Bonneville procedures regarding signed acknowledgement of delegate terms and appraisal standards requiring timely documentation of oral appraisal reviews.
3. Validate that data currently in LIS is complete and accurate.
4. Develop and implement controls to ensure that new data input into LIS is complete and accurate.

MANAGEMENT RESPONSE

Management concurred with the recommendations and indicated that corrective actions had been completed, initiated, or planned to address the identified issues. In particular, Bonneville completed a draft “Real Property Acquisition Handbook” outlining the acquisition process and stating negotiations will occur after the appraisal process is complete. Bonneville also plans to benchmark other agencies’ acquisition policies and procedures to align with best practices, as well as applicable statutory and regulatory requirements. In addition, all Real Property Services staff completed an automated acknowledgement and acceptance of their delegations, and internal controls were implemented in May 2015 requiring staff to submit a printed copy of the delegation with all realty transactions. Real Property Services also ceased the practice of oral appraisals in January 2013, and in September 2015, completed written summaries for the backlog of appraisal reports. Management also stated that Real Property Services implemented an internal standard requiring appraisal reviews to be completed within 30 days of the appraisal report. Bonneville plans to establish a validation strategy, perform validation actions, analyze the results, and implement validation process controls related to the current LIS data. For new data input into LIS, Bonneville completed the initial draft LIS data quality control procedures, and to build on this effort, will establish LIS data governance goals and finalize LIS data policies and procedures. Management’s formal comments are included in attachment 2.

AUDITOR COMMENTS

Management’s comments and corrective actions are responsive to our findings and recommendations.

Attachments

cc: Deputy Secretary
Chief of Staff
General Counsel

OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of this audit was to determine whether Bonneville Power Administration (Bonneville) Real Property Services was being managed efficiently and effectively.

SCOPE

The audit was performed between May 2014 and January 2016 at Bonneville in Portland, Oregon. The audit was conducted under Office of Inspector General project number A14DN036.

METHODOLOGY

To accomplish our audit objective we:

- Reviewed applicable laws, regulations, policies, and procedures.
- Reviewed relevant reports issued by the Office of Inspector General, Government Accountability Office, and other entities.
- Interviewed Bonneville officials to obtain an understanding of Real Property Services activities.
- Obtained, reviewed, and analyzed data from Bonneville's Land Information System (LIS).
- Judgmentally selected a sample of land acquisitions from LIS based on attributes such as acquisition type, appraised value, and acquisition costs. We selected 29 acquisitions that, according to LIS, totaled approximately \$11.3 million. We tested various aspects of the selected acquisitions including the appraisal, negotiation, and payment process for acquisitions; whether appraisals were reviewed and approved; whether acquisition costs were greater than or less than appraised values and if amounts were reasonable; and whether justifications to exceed appraised value were completed. Because selection was based on a judgmental sample, results and overall conclusions are limited to the samples selected.
- Obtained and reviewed payment information for two tribes identified in an allegation that we received. We judgmentally selected three invoices for each of the two tribes for further review. These six invoices totaled approximately \$12.4 million and were tested to determine whether the process for acquiring rights was appropriate and in accordance with the applicable criteria. Because selection was based on a judgmental sample, results and overall conclusions are limited to the samples selected.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Accordingly, we assessed significant internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. We considered the *GPRA Modernization Act of 2010* as necessary to accomplish the objective, and determined Bonneville had established goals related to Real Property Services. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. Finally, we did not rely on computer-processed data from the LIS system to accomplish our audit objective because we determined that the data was unreliable.

Management waived the exit conference.

MANAGEMENT COMMENTS



Department of Energy


Bonneville Power Administration
 P.O. Box 3621
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EXECUTIVE OFFICE

11-30-2015

In reply refer to: TER

MEMORANDUM FOR DANIEL M. WEEBER
 ASSISTANT INSPECTOR GENERAL FOR AUDITS
 AND ADMINISTRATION

FROM: ELLIOT E. MAINZER 
 ADMINISTRATOR AND CHIEF EXECUTIVE OFFICER

SUBJECT: RESPONSE TO DRAFT AUDIT REPORT: "BONNEVILLE POWER
 ADMINISTRATION'S REAL PROPERTY SERVICES"

The Bonneville Power Administration (BPA) appreciates the opportunity to provide comments on the Office of Inspector General's (OIG) draft audit report. We further appreciate that your staff acknowledged that BPA had taken some positive corrective actions under new management in its Real Property organization. We also note that you identified that BPA had stopped the past practices that lacked adequate controls. We agree with the recommendations to improve the operations of Real Property Services. Improvement of Real Property Services is a priority for BPA and we are working to remediate the remaining concerns identified. A summary of our response to each of the OIG recommendations is below.

Recommendation 1: *Establish detailed policy and procedures that address initiating landowner negotiations before an appraisal of vegetation management rights is done.*

Management Response: Concur. BPA has completed a draft "Real Property Acquisition Handbook" outlining the acquisition process and stating negotiations will occur after the appraisal process is complete. BPA is also benchmarking other agencies' acquisition policies and procedures to ensure we are aligned with best practices as well as applicable statutory and regulatory requirements. This recommendation will be fully implemented by June 30, 2016.

Recommendation 2: *Comply with Bonneville procedures regarding signed acknowledgement of delegate terms and appraisal standards requiring timely documentation of oral appraisal reviews.*

Management Response: Concur. As of June 8, 2015, all Real Property Services staff completed an automated acknowledgement and acceptance of their delegations. Internal controls implemented on May 4, 2015 require staff to submit a printed copy of their delegation with all realty transactions. The new controls were integrated into the A-123 review process on

September 30, 2015. Regarding oral appraisals, Real Property Services ceased the practice of oral appraisals in January 2013. And, on September 8, 2015, Real Property Valuation Services completed written summaries for the backlog of 280 oral appraisal reports. Real Property Services also implemented an internal standard requiring appraisal reviews to be completed within 30 days of the appraisal report. This recommendation was fully implemented and complete as of September 8, 2015.

Recommendation 3: *Validate that data currently in LIS is complete and accurate.*

Management Response: Concur. To comply with this recommendation BPA will:

1. Establish a validation strategy
2. Perform validation actions
3. Analyze the results
4. Implement validation process controls

This corrective action plan will be complete by December 31, 2017.

Recommendation 4: *Develop and implement controls to ensure that new data input into LIS is complete and accurate.*

Management Response: Concur. On June 23, 2015, Real Property Services completed the initial draft LIS data quality control procedures with the overarching goal of orchestrating people, processes, and technology to enable BPA to better leverage LIS data as an enterprise asset. To comply with this recommendation BPA will build on our initial LIS data quality control procedures and:

1. Establish LIS data governance goals
2. Finalize LIS data policies
3. Finalize LIS Data procedures

This corrective action plan will be complete by September 30, 2016.

We appreciate the OIG's thorough review of our Real Property Services program and take the findings very seriously. We are committed to addressing the remaining opportunity areas and establishing a Real Property Services program that stands out as a center of excellence. Additional information regarding our response is available as necessary and upon request.

Thank you again for the opportunity to respond to the draft audit report.

FEEDBACK

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