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Sex, drugs alleged in oil deals

By Anne C. Mulkern The Denver Post

Sep 10, 2008

WASHINGTON — Federal workers in Lakewood who oversee offshore oil and gas drilling had sex and used drugs with energy company employees, provided information to industry favorites, and accepted thousands of dollars in gifts while handling contracts worth billions of dollars, investigators said Wednesday.

Employees at the Minerals Management Service, including the former head of the Lakewood division, repeatedly and flagrantly violated ethics rules over a four-year period, the Interior Department's inspector general said in three reports.

Investigators discovered "a culture of substance abuse and promiscuity," in one section of the Lakewood office, Interior Inspector General Earl E. Devaney wrote in a letter to Interior Secretary Dirk Kempthorne.

In the Royalty in Kind division, "between 2002 and 2006, nearly one-third of the staff socialized with, and received a wide array of gifts and gratuities from, oil and gas companies," with whom those workers were conducting business, one report said.

Gifts included ski and golf trips, tickets to sporting events, a jaunt to a party in New Orleans, dinners, drinks and a paintball outing.

Devaney said investigators found "a pervasive culture of exclusivity, exempt from the rules that govern all other employees of the federal government."

The employees also used marijuana and cocaine with energy company workers, the report said.

Other employee transgressions detailed in the report included helping oil-company workers fix problems with their contracts (at a cost to the federal government of an estimated $4.4 million), providing information about how bids would be judged, and working part time in jobs that conflicted with their government work.

The Minerals Management Service oversees all offshore oil and gas production efforts as well as the royalties paid to the government by a producer of minerals, oil or natural gas on a leased site. Some are "in-kind payments" to the government in the form of oil and gas production sold on the open market.

Last year, the division collected $11 billion from fees charged to oil, gas and mining companies for extracting offshore minerals in addition to production on federal and Indian lands.

The report notes that MMS is one of the federal government's largest sources of non-tax revenues.

During the past year, in September and again in May, inspector-general reports have portrayed MMS as a nest of conflict, lapsed controls and potential criminal conduct.

Director Randall Luthi told The Associated Press on Wednesday that the agency was taking the most recent reports "extremely seriously" and would review the allegations and weigh taking appropriate action in coming months.

Luthi said four of the employees were transferred to other departments last year.

The inspector general's investigation took two years, cost $5.3 million, and included interviews with 233 people and nearly 500,000 pages of documents.

It found ethics breeches by 19 employees, some of whom worked in Washington, D.C. The inspector general recommended to Kempthorne that employees implicated in the report who are still with MMS be fired and be barred for life from working within the royalty program.

Democrats immediately seized on the allegations. From U.S. House Speaker Nancy Pelosi to Colorado Gov. Bill Ritter, they issued statements arguing that a too-cozy relationship between the Bush administration and oil companies hurts taxpayers.

"The investigation also must closely examine how much this type of corruption has cost American — and Colorado — taxpayers," Ritter said. "The oil-and-gas industry already benefits from taxpayer-funded subsidies, so the question is: How much has this scandal cost us in lost revenue?"

Pelosi, who Wednesday unveiled new energy legislation, tied in President Bush and Vice President Dick Cheney.

"Little did we know how cozy the relationship between Big Oil and the administration's regulators have been," Pelosi said.

The chairman of the House Committee on Oversight and Government Reform, Democrat Henry Waxman of California, announced he will hold a hearing next week to examine the allegations in the report.

Many of the alleged misdeeds occurred when Gale Norton was secretary of the interior. Now a general counsel with Shell in Denver, Norton declined to comment, even when asked to address the portion of the reports dealing with the department she headed.

"It's appropriate for me to let the Shell public-affairs people discuss it," Norton said.

Shell is one of the oil companies named in the report, along with Chevron, Hess Corp. and Denver-based Gary-Williams Energy Corp.

"Shell has been aware of the inspector general's investigation regarding alleged improper conduct by certain MMS employees and cooperated fully with that investigation," said Shell spokeswoman Darci Sinclair. "However, it would be premature to comment on the Interior Department inspector general report until we have had an opportunity to review the content."

Officials with Chevron could not be reached.

One report said that Gregory W. Smith, former head of the Lakewood MMS office, had sex and took illegal drugs with subordinates.

It also said he earned more than $30,000 while moonlighting as a consultant for an engineering firm linked to oil companies.

Smith could not be reached for comment Wednesday.

In an interview with AP, his attorney, Steve Peters, called the claims "sheer fantasy."

"Greg Smith was a loyal, dedicated employee of the federal government for more than 28 years," Peters said. "His efforts in running the Royalty in Kind program resulted in one of the most profitable government programs in American history."

Smith, who retired during the inspector general's probe, told investigators he and one of his employees "used cocaine together on approximately four or five occasions over a multiyear period."

The inspector general's office forwarded its findings on Smith to the Justice Department in March. The department declined to prosecute, the report said.

Another report focuses on workers in the Royalty in Kind office and details an atmosphere of booze-filled partying with oil and gas company workers.

Two women named in the report, Stacy Leyshon and Crystel Edler, became known among energy industry representatives as the "MMS chicks," the report said.

Leyshon, according to the report, accepted approximately $2,887 in meals, drinks and golf outings on at least 74 occasions between 2002 and 2006.

The employees told investigators that they needed to socialize with oil company executives in order to gain information, and "when confronted by our investigators," the IG report said, "none of the employees involved displayed remorse."

Neither Leyshon nor Edler could be reached for comment.

In his letter to Kempthorne, Inspector General Devaney recommended developing an enhanced ethics program specifically for the Royalty in Kind office with an explicit prohibition against any gifts from industry, developing a strict code of conduct, and changing the management reporting structure so that management is not all located in Washington.

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