Rampant corruption at US agency responsible for collecting oil royalties

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Reports released by the US Interior Department on Wednesday revealed that employees at the US agency in charge of collecting royalties from energy companies have been involved for years in inappropriate and illegal behavior, including accepting gifts, handing out sweetheart deals and engaging in sex and illegal drug use with oil company employees.

The reports from Interior Department Inspector General Earl E. Devaney detail the activities of employees of an arm of the Minerals Management Service (MMS), the agency that issues lucrative drilling leases to energy companies and collects royalties from the leasing of federally owned land.

MMS takes in up to $10 billion a year in royalty revenue from energy companies, making it one of the US government's largest non-tax sources of revenue. The revelations of misconduct at the agency come as Congress prepares to lift restrictions on offshore drilling and leading Democrats move closer to an agreement on expansion of the practice.

At the center of the investigation, conducted over two years at a cost of $5.3 million, is the 60-employee Denver, Colorado-based Royalty in Kind (RIK) program, which collects royalty payments made "in kind," e.g., in oil instead of cash, and then resells the resources on the open market. Energy companies named in the report include Chevron, Shell Oil, Hess Corp. and Gary Williams Energy Corp.

According to the inspector general's investigation, employees of RIK engaged in a "culture of substance abuse and promiscuity." Employees also reportedly allowed energy companies to revise their lease agreements, resulting in millions of dollars of lost government revenue.

Between 2002 and 2006, according to the investigation, "nearly one-third of the entire RIK staff socialized with, and received a wide array of gifts and gratuities from, oil and gas companies with whom RIK was conducting official business." These gifts included, among others things, meals, high-priced wines, golf outings, sporting event tickets, concert tickets, paintball games, concert tickets and a desert-island treasure hunt.

Investigators noted: "Employees frequently consumed alcohol at industry functions, had used cocaine and marijuana, and had sexual relationships with oil and natural gas company representatives." Energy company reps reportedly referred to some of the government workers as the "MMS Chicks."

Two of the 19 employees identified in the report received gifts on more than 135 occasions from four major oil and gas companies. Government employees are forbidden by law from taking such gifts valued at more than $20 and from accepting gifts totaling more than $50 a year from one source.

Agency employees at RIK regularly socialized with energy industry representatives. Two employees allegedly engaged in "brief sexual relationships" with energy company contacts, but did not subsequently recuse themselves from business dealings with these individuals. One program official reportedly had sex with two of his subordinates; he also purchased cocaine, sometimes at his office.

At an industry-sponsored gathering in 2004, when an RIK employee became too intoxicated to drive home, Shell provided her with hotel room. A Shell employee wrote to her in an email afterward, "Nobody will say anything about you being here for the night. As far as I'm concerned, you were in a hotel."

In her own email, the government employee responded, "You are sooo wonderful. You know how much I totally adore you."

The "culture of ethical failure" uncovered by the investigation resulted in financial gain for RIK employees as well as sweetheart deals for the energy companies with whom they did business. As one Royalty in Kind employee told investigators, their goal was to be "part of industry."

RIK program director Gregory Smith pocketed more than $30,000 from industry consulting firm Geomatrix Consultants in return for marketing the firm to energy companies doing business with the government agency. According to the investigation, Smith received gifts from the oil companies totaling $988 on 16 different occasions in the form of golf outings, meals and drinks.

Richard Fantel, who worked as an RIK oil-marketing specialist from 2002 to December 2006, operated Sunbarbans, an unauthorized consulting company, collecting undisclosed income totaling $13,725. Gary Peterson, an MMS employee since 1997, has been listed on the Sunbarbans web site as an employee, but has denied it. He collected $12,320 in undisclosed income.

In return for the gifts and other perks received from the oil and gas companies, RIK employees routinely allowed these companies to revise their bids for oil property leases. Of the 121 amendments to bids reviewed by the investigation, only three favored the government. The remaining 118 bid revisions amounted to $4.4 million in savings for the oil companies—i.e., funds that were not collected by the government.

The inspector general's report cites one example involving Chevron and one of its traders, Jeff Brough. Brough apparently made an error bidding on MMS oil properties, failing to include a transportation expense. According to the report, that mistake should have made "his bid both inaccurate and potentially a career-ending event with huge financial consequences for Chevron."

Crystel Edler, a former RIK oil-marketing specialist, told investigators that Brough then traveled to Denver to discuss his error with the above-mentioned RIK director, Gregory Smith, who offered to allow RIK to split the cost of the amendment with Brough. Edler explained this to investigators by saying RIK was not in operation to "screw anybody over."

Edler did well at RIK. During her tenure with the group, she received gifts on at least 61 occasions from energy companies, worth a total of $2,715. These included meals, drinks, customer appreciation dinners, golf outings and lodging. She was reassigned to a new position at Mineral Revenues Management, a division of MMS, in 2007.

None of the government employees investigated by the Interior Department currently faces prosecution, and the Justice Department has no plans to prosecute any of those involved. Lucy Dennett, the former associate director of Minerals Revenue Management, retired this year as the inquiry was under way, an apparent attempt to avoid prosecution. The Interior Department has not asked for the resignation of any high-ranking officials in connection with the scandal.

Democrats in Congress were quick to seize on the revelations at the Interior Department to posture as opponents of the oil companies. New York's Democratic Senator Charles Schumer, commented, "This IG [inspector general] report has it all—sex, drugs and the Bush administration's officials once again in cahoots with Big Oil."

Senator Ron Wyden, Democrat of Oregon, said that the royalty-in-kind program should be suspended to "clean house" at the agency and "bring back the process of rigorous audits and accountability."

This debate over accountability by the oil giants, however, comes as Democrats assemble energy legislation for a vote in the House next week that includes new proposals on offshore drilling. Under the measure, moratoria in place would be lifted and oil rigs could drill 50 miles from the shores of states that approve it, and 100 miles off any section of the US coast.

This constitutes a reversal of long-standing opposition to offshore drilling on the part of the Democrats, who claim to be responding to a public outcry for the drilling. House Speaker Nancy Pelosi, who up to now has opposed offshore drilling, claims to support the measure reluctantly. She told reporters Thursday, "The reality is if we don't have something in the bill, it's drilling three miles offshore" when the moratorium on offshore drilling expires October 1.

Pelosi maintains that the legislation will include "a very strong integrity piece" to deter the type of graft and corruption exposed by the Interior Department's investigation into the operations at Royalty in Kind.

House Majority leader Steny Hoyer (Democrat, Maryland) described the Democrats' energy measure as "a strong bill that will increase responsible drilling and invest in renewable energy." He commented that opponents of the legislation would "rather have a political issue."

For their part, Congressional Republicans were not satisfied with the Democrats' concessions on offshore drilling. House Republican leader John Boehner of Ohio said the plan would result "in little or no new American energy production" because the states would not share royalties on the drilling.

The oil industry opposes a measure in the Democrats' legislation that would eliminate an estimated $17 million in tax breaks over 10 years to the oil companies. Mark W. Kibbe of the American Petroleum Institute told the *New York Times*, "Based upon what we have seen so far, this bill comes up short on the energy side and long on the tax side."

Environmental groups overwhelmingly oppose any lifting of the bans on offshore drilling. Anna Autilio, director of the Washington office of Environment America, told the *Times* that the legislation represents "a huge power grab on the part of the oil industry and its allies and it won't do anything to help the public and will hurt the coast."