Sex, Drug Use and Graft Cited in Interior Department

By CHARLIE SAVAGE
Published: September 10, 2008

E-MAIL
PRINT
SINGLE PAGE
REPRINTS
SHARE

WASHINGTON — As Congress prepares to debate expansion of drilling in taxpayer-owned coastal waters, the Interior Department agency that collects oil and gas royalties has been caught up in a wide-ranging ethics scandal — including allegations of financial self-dealing, accepting gifts from energy companies, cocaine use and sexual misconduct.

Enlarge This Image

Kevin Moloney for The New York Times

Office of the Minerals Management Service outside Denver.

In three reports delivered to Congress on Wednesday, the department's inspector general, Earl E. Devaney, found wrongdoing by a dozen current and former employees of the Minerals Management Service, which collects about $10 billion in royalties annually and is one of the government's largest sources of revenue other than taxes.

"A culture of ethical failure" pervades the agency, Mr. Devaney wrote in a cover memo.

The reports portray a dysfunctional organization that has been riddled with conflicts of interest, unprofessional behavior and a free-for-all atmosphere for much of the Bush administration's watch.

The highest-ranking official criticized in the reports is Lucy Q. Denett, the former associate director of minerals revenue management, who retired earlier this year as the inquiry was progressing.

The investigations are the latest installment in a series of scathing inquiries into the program's management and competence in recent years. While previous reports have focused on problems the agency had in collecting millions of dollars owed to the Treasury, and hinted at personal misconduct, the new reports go far beyond any previous study in revealing serious concerns with the integrity and behavior of the agency's officials.

In one of the new reports, investigators concluded that Ms. Denett worked with two aides to steer a lucrative consulting contract to one of the aides after he retired, violating competitive procurement rules.

Two other reports focus on "a culture of substance abuse and promiscuity" in the service's royalty-in-kind program. That part of the agency collects about $4 billion a year in oil and gas rather than cash royalties.

More Articles in Washington »

MOST POPULAR

E-MAILED | BLOGGED | SEARCHED

1. Well: Vitamin Pills: A False Hope?
2. The Minimalist: Your Morning Pizza
3. David Brooks: I Dream of Denver
4. Maureen Dowd: Cheney and the Goat Devil
5. Texas Firm Accused of $8 Billion Fraud
6. A Promising Treatment for Athletes, in Blood
7. For Uninsured Young Adults, Do-It-Yourself Health Care
8. The Future of Reading: In Web Age, Library Job Gets Update
9. Thomas L. Friedman: No Way, No How, Not Here
10. Student Expectations Seen as Causing Grade Disputes

Go to Complete List »

Based in suburban Denver and modeled to operate like a private sector energy company, the decade-old royalty-in-kind program sells oil and gas on the open market. Its employees are subject to government ethics rules, such as restrictions on taking gifts from people and companies with whom they conduct official business.

One of the reports says that the officials viewed themselves as exempt from those limits, indulging themselves in the expense-account-fueled world of oil and gas executives.

The reports provoked immediate outrage in Congress. Senator Ron Wyden, an Oregon Democrat who is chairman of the Public Lands and Forests Subcommittee, accused the Minerals Management Service on the Senate floor Wednesday of “a pattern of abuses and mismanagement” that is costing taxpayers billions.

And Senator Bill Nelson, Democrat of Florida, suggested that Congress should not lift its ban on offshore drilling — a hot-button issue in his state — because of the problems identified.

The report says that eight officials in the royalty program accepted gifts from energy companies whose value exceeded limits set by ethics rules — including golf, ski and paintball outings; meals and drinks; and tickets to a Toby Keith concert, a Houston Texans football game and a Colorado Rockies baseball game.

The investigation also concluded that several of the officials “frequently consumed alcohol at industry functions, had used cocaine and marijuana, and had sexual relationships with oil and gas company representatives.”

The investigation separately found that the program’s manager mixed official and personal business. In sometimes lurid detail, the report also accuses him of having intimate relations with two subordinates, one of whom regularly sold him cocaine.

The culture of the organization “appeared to be devoid of both the ethical standards and internal controls sufficient to protect the integrity of this vital revenue-producing program,” one report said.

The director of the Minerals Management Service, Randall Luthi, said in a conference call with reporters that the officials implicated in the reports had violated the public’s trust.

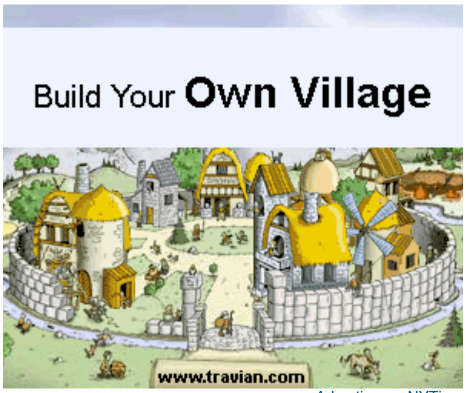
“When you come to work for the federal government, the American people expect the best of you,” he said, adding, “I am not going to leave this post in January without addressing this problem.” Mr. Luthi, who became the service director in July 2007, said that the agency had requested the investigation after receiving whistle-blower complaints in the spring of 2006, and that it had already made several changes. A spokesman for Mr. Devaney declined to comment.

A former official named in the report, Jimmy W. Mayberry, pleaded guilty to a felony conflict-of-interest charge in August and faces up to five years in prison and a $250,000 fine.

1 | 2 | 3 NEXT PAGE »

A version of this article appeared in print on September 11, 2008, on page A1 of the New York edition.

More Articles in Washington »



Past Coverage

- INSPECTOR FINDS BROAD FAILURES IN OIL PROGRAM (September 26, 2007)
- THE NATION; Many Investigations, One Department (January 21, 2007)
- U.S. Official Overseeing Oil Program Faces Inquiry (December 30, 2006)
- Criminal Inquiries Look at U.S. Oil-Gas Unit (December 15, 2006)

Related Searches

Minerals Management Service	Get E-Mail Alerts
Ethics	Get E-Mail Alerts
Interior Department	Get E-Mail Alerts
Oil (Petroleum) and Gasoline	Get E-Mail Alerts

INSIDE NYTIMES.COM

DINING & WINE »

Keeping Tabs on the Rich

N.Y. / REGION »

When Panhandlers Need a Wordsmith's Touch

TELEVISION »

Grand Theft Auto: The Story Continues

OPINION »

Pure vs. Applied Research

When scientists move from theoretical to practical, we all benefit, writes Stephen Quake.

STYLE »

In the Moment, or Not

OPINION »

Room for Debate: They're Not Just Cars

