

Project On Government Oversight

Exposing Corruption Exploring Solutions www.POGO.org

25
POGO
Anniversary
Celebration

Vol. 10, Issue 1

Oil and Gas Drilling Fees Underpaid Again?

In January, a front page *New York Times* story broke the news that the federal government's collection of fees from companies extracting natural gas from federal lands appeared to be \$700 million short. The article prompted many Members of Congress to demand answers from the Interior Department's Minerals Management Service (MMS) about why the collections were running low. The inquiry was led by Representatives Carolyn Maloney (D-NY), George Miller (D-CA), Ed Markey (D-MA), and House Resources Committee Chairman Richard Pombo (R-CA).

Despite several weeks of questioning by the *New York Times*, MMS seemed unable to explain the discrepancy. Indeed, follow-up letters from Interior shed no further light on the situation, and only seemed to raise more questions. It is unknown at this point how the federal government is losing so much on its royalty collections, particularly given the high price natural gas fetches in the market place.

As a result, the Project On Government Oversight has reopened its investigations into oil and gas industry fraud on federal lands. Our last set of investigations helped to generate \$438 million in settlements from the oil industry, and a rule change which boosted collections by \$70 million annually (see related article on page four).

There is good reason to believe there is a problem. A pending False Claims Act case filed by oil industry executive Jack Grynberg alleges that the oil and gas industry may owe as much as \$30 billion in underpayments and penalties. His case is in the final stages of pre-trial motions and includes 73 lawsuits against 300 companies.

One company, Burlington Resources Inc., recently disclosed in its SEC filings that it was estimated to have underpaid royalties by about \$76 million. According to the filing, the federal government estimated \$95 million in interest payments were owed as well.

States and tribes have been pressing the Department of Interior for information about whether oil and gas companies have been properly overseen in recent years. In 2001, the Department stopped publishing an annual report which disclosed how much money was recovered from audits of the companies on behalf of the states and tribes. According to a recent letter from the State and Tribal Royalty Audit Committee (STRAC): "For well over two years, STRAC has asked MMS to provide it with statistics and other data regarding the quality and efficiency of compliance reviews to no avail."

Stay tuned for more! ■



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Letter from the Executive Director

Dear Friends,

In February, we marked twenty five years of shining an investigative light into the shadowed corridors of government.

Our early days as the Project on Military Procurement, working in a tiny office above the Capitol Hill Hunan Dynasty, were filled with the smells of Chinese food and cigarettes; Pentagon whistleblowers dropping off documents in unmarked envelopes; *Washington Post* cartoonist Herb Block depicting then-Defense Secretary Weinberger with a toilet seat draped around his neck; and appearing on the "Phil Donahue Show."

Today, our offices are larger, but still modest, and now we hear from about 50 new whistleblowers monthly from across the federal government, largely via email – although we do still get the occasional unmarked envelope slipped under the door. We also have 85,000 monthly visitors to www.pogo.org, described in a

Sunshine is the best disinfectant.

Los Angeles Times editorial as "good reading"; have a blog where people duke it out over issues ranging from the Los Alamos contract to Representative Tom Davis' contractor-funded office holiday party; and appear on Fox News' "O'Reilly Factor" and on CNN's "Lou Dobbs Show." One thing has remained the same – if we poke in the right place, an agency official usually shows up at our door trying to intimidate us!

To commemorate this special year, we selected a striking sunburst logo because we believe "sunshine is the best disinfectant" when cleaning up government corruption and wrongdoing.

We'll also be celebrating by throwing a 25th Anniversary Gala on May 3 at the Army and Navy Club. Please join us as we cheer on the first inductees into POGO's Good Government Hall of Fame.

We're excited with what POGO has accomplished, and even more excited by POGO's potential for the future. And we're so happy to have you with us on this journey.

See you on May 3rd.

Danielle Brian

Government Integrity and Ethics Wind Beginning to Shift

Recent scandals involving Darleen Druyun, David Safavian, Randy "Duke" Cunningham, and Jack Abramoff illustrate all too well that government integrity has been on the back burner for far too long. POGO has worked for years to get the government to close loopholes in the conflict of interest and ethics system in such areas as lobbying, the revolving door, contractor misconduct, and government contracting. Finally the wind seems to be changing:

proposals to restore integrity and ethics in government are coming from both the congressional and executive branches of government.

. . . every citizen is entitled to have complete confidence in the integrity of his government. Each individual officer, employee, or adviser of government must help to earn and must honor that trust by his own integrity and conduct in all official actions.

—Executive Order 11222, Part 1, Section 101, May 8, 1965

In Congress, Republicans and Democrats alike are scrambling to work with watchdog organizations to determine how to improve the system. Early reforms include restricting or banning lobbyists from paying for Congress members' and staffs' meals, travel, and gifts; curbing budget earmarks for pork barrel projects; improving revolving door laws; limiting privileges provided to former Members of Congress; and increasing disclosure, oversight, and enforcement of the entire ethics system.

The Executive Branch's Office of Government Ethics (OGE) has also proposed reforms. Unfortunately it's a mixed bag, which would both expand some conflict of interest and ethics laws for government employees and relax others. While most of the proposals are inoffensive, none of them go far enough to seriously root out the dominance of commercial interest over the public good. ■

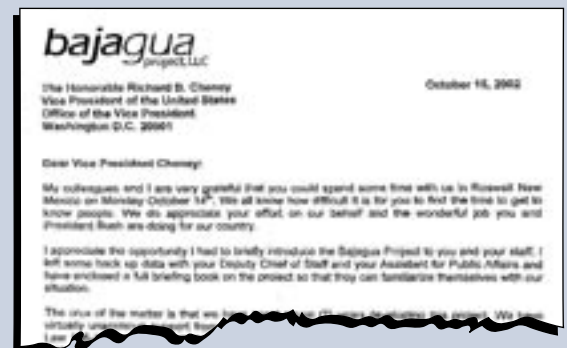
A Raw Deal

For decades, sewage from Tijuana, Mexico, has created environmental problems on the coasts of San Diego and Tijuana. This problem has led to several treaties between Mexico and the United States, an international wastewater treatment plant, and a 3.6 mile-long tunnel under the Pacific Ocean floor that dumps partially-treated sewage offshore. The newest fix has the largest price tag yet, and the no-bid contract was awarded to politically-connected Bajagua Project, LLC.

Insiders at a little-known agency, the U.S. Section of the International Boundary and Water Commission (USIBWC), notified POGO last summer of their concerns regarding the Bajagua deal.

Bajagua aggressively lobbied Congress for the contract to build a treatment facility in Mexico, and its principals have showered thousands of dollars in campaign contributions on Members of Congress who have supported the company's efforts. In 2000, Representative Bob Filner (D-CA) and then-Representative Brian Bilbray (R-CA) wrote legislation tailored to ensure that Bajagua would be awarded the massive contract. Then, in 2004, Representative Duncan Hunter (R-CA) amended the legislation to make it even more favorable to Bajagua. After Bilbray lost his congressional seat, he became a lobbyist for Bajagua. Later, one of Rep. Hunter's staffers became a lobbyist for the company. And when the USIBWC had legal objections to the Bajagua project, Bajagua enlisted the help of Vice President Richard Cheney.

Despite the political clout the company seems to wield, the project is still mired in diplomatic and bureaucratic red tape and nothing has been done to fix the sewage problem. Meanwhile, a solution which would have significantly mitigated the problem – and that had already cleared the diplomatic and bureaucratic hoops now faced by Bajagua – was quietly allowed to die. The cost to the U.S. taxpayer for the Bajagua project has ballooned from \$156 million in 2000, to an estimated \$600 million to \$1 billion today. ■



POGO to Update Its Federal Contractor Misconduct Database

POGO's Federal Contractor Misconduct Database (FCMD) has been the only centralized source of instances of misconduct and wrongdoing among the federal government's top contractors. Now, POGO has undertaken a massive renovation of the FCMD. In addition to several substantive changes, information regarding federal contractor misconduct will now be available in a more user-friendly, customizable format which will allow Members of Congress; federal, state, and local governments; contracting officials; the media; and the general public to more easily research federal contractor misconduct.

The new FCMD will feature significantly more detailed descriptions of each instance of misconduct than the current database. The current database contains a cursory description of the misconduct involved, with a citation to the source. The new FCMD will include an in-depth recitation of each event, using as much language from the original source as possible. The FCMD will also include the actual primary-source documents consulted; this will tremendously assist any visitor to the database because it will save the viewer the additional step of having to find the documentation independently.

Another improvement to the FCMD is a clearer contractor selection and research methodology. The current database includes the top contractors from each agency, which could become complicated as some companies are top contractors for multiple agencies. The new FCMD will derive its list of companies from the government-provided list of top 100 overall federal contractors.



Information regarding federal contractor misconduct will now be available in a more user-friendly, customizable format.

POGO has written letters to each included contractor explaining the changes made to the database and enclosing all of the instances of misconduct which will be listed. Each letter invites the contractor to verify or refute the information provided. POGO has already received responses from some of the contractors, and these replies, along with POGO's initial letter to the company, will be posted on the database.

This labor-intensive project is moving along smoothly, and POGO expects to unveil the new-and-improved Federal Contractor Misconduct in Spring 2006. ■

Reports Revisited Oil Royalties: No Good Deed Goes Unpunished

A January 2006, press release from Democratic Members of Congress chastised House leadership for not holding a single hearing on federal oil drilling payments despite warnings from whistleblowers and litigation that generated \$438 million in settlements. As the release noted, the only hearing on the topic was held in the House Resources Committee: "In 2000, Chairman Don Young did hold a hearing on the subject, but the purpose was to investigate POGO (Project on Government Oversight) and attempt to hold them in contempt of Congress."

Actually, POGO was subjected to four hearings in that Committee which, in collaboration with oil industry lobbyists, cooked up a scandal. A subpoena for POGO's phone records came two months after POGO prevailed in a dramatic Senate debate and vote on whether the government would collect fair market value for oil drilling, a move that forced the industry to pay \$70 million more annually to the federal government. The Committee wanted the phone records in an obvious attempt to find out who POGO's sources were. POGO refused to comply with the subpoena, prompting Committee Chairman Don Young (who was a top recipient of oil and gas industry campaign contributions) to try to hold POGO in contempt of Congress. Young attempted to bring the contempt resolution to a vote four times, but ultimately failed to get enough votes. ■



Please join us for

The Project On Government Oversight's

25th Anniversary Gala

and to

honor the inaugural members of

POGO's Good Government Hall of Fame

Wednesday, May 3, 2006

6:00 p.m. to 10:00 p.m.

The Army and Navy Club
901 Seventeenth Street, NW
Washington, D.C. 20006

To RSVP or sponsor a congratulatory message in the event program,
call (202) 347-1122 or email supportpogo@pogo.org

Beyond the Headlines

Please send your nominations for POGO's Beyond the Headlines Award. Nominees should be whistleblowers, activists, journalists or politicians who reach beyond the headlines and work to protect the public interest.

Past award winners include former Pentagon Director of Operational Test and Evaluation Phil Coyle, Nuclear Power Plant Security Officer Anthony Rizzo, Jr., and The Memory Hole Publisher and Editor Russ Kick.

Please submit your nominations no later than April 14, 2006, by emailing pogo@pogo.org or by calling (202) 347-1122.

Mission Statement

Founded in 1981, the Project On Government Oversight (POGO) is an independent nonprofit that investigates and exposes corruption and other misconduct in order to achieve a more accountable federal government.



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