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Grand jury examines Stevens' ties to Veco**INVESTIGATION: Expansion of senator's Girdwood home comes under scrutiny in Washington.**

Ted Stevens, right, and Bob Penney, center, bring VIPs such as Commerce Secretary Donald Evans to Alaska for the Kenai Classic. Penney gave testimony to an Anchorage grand jury two weeks ago. (LIZ RUSKIN / Daily News archive 2003)

By RICHARD MAUER
rmauer@adn.com

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A federal grand jury in Washington, D.C., heard evidence last month about the expansion of U.S. Sen. Ted Stevens' Girdwood home in 2000 and other matters connecting Stevens to the oil services company Veco Inc.

As the far-reaching federal investigation into corruption in Alaska politics spreads to Washington, Stevens family friend and neighbor Bob Persons was ordered to appear before a grand jury in Washington on May 25. The government directed him to produce documents related to the work on Stevens' Girdwood house, especially to work that might have been performed by Veco and contractors who were hired or supervised by Veco.

Another close associate of Stevens, Anchorage businessman Bob Penney, testified two weeks ago before the federal grand jury in Anchorage that has been gathering evidence in the corruption cases.

The house expansion project, first reported in the Daily News on May 29, more than doubled the size of the home. The Stevenses had asked Persons, who lives above the Double Musky restaurant he owns in Girdwood, to help them oversee the addition while they were in Washington.

The existence of the Washington grand jury investigation is the strongest indication to date that Stevens himself has become a subject of the wide-ranging federal probe that surfaced with FBI raids on state legislative offices last August. Former State Sen. Ben Stevens, Ted Stevens' son, was among the legislators whose offices were searched. Ben Stevens has denied wrongdoing.

The FBI said at the time that it also had executed a search warrant in Girdwood, among other places, although the location of that search has never been disclosed.

VECO GUILTY PLEAS

The investigation by the FBI and the Justice Department's Public Integrity Section has so far led to guilty pleas by former Veco chief executive Bill Allen, former Veco vice president Rick Smith and private-prison lobbyist Bill Bobrick. Four current or former state legislators have been indicted and are awaiting trial on corruption charges, three for taking bribes or attempting to take bribes from Veco, the other for taking bribes from the private prison interest.

How the Girdwood home fits in with the broader investigation, or what possible crimes are being investigated, is not clear.

Persons was ordered by the Washington grand jury to produce documents going back more than eight years, including all letters, e-mails and other documents involving Ted, his wife, Catherine, or Ben Stevens. Specifically mentioned were records about a race horse partnership, Alaska's Great Eagle, he manages for Ted Stevens, Allen, Allen's son Mark, Penney and others.

But the main focus was clearly on the Girdwood addition. Persons was directed to produce blueprints and other plans, photos and purchase and installation documents for all phases of the project, including the heating system, generators, ice-melt systems and decorative lights. His summons also told him to bring invoices, payments and other documents related to several Veco employees and to the main contractor, Augie Paone of Christensen Builders in Anchorage.

Persons' didn't return a call for comment last week.

In a brief interview May 18, a week after he received his subpoena and one week before his date with the grand jury, Persons

acknowledged he would be testifying, but didn't say where or in what setting.

STEVENS GOES TO FRANCE

Stevens left for France on Thursday to be President Bush's official representative to the Paris Air Show. His spokesman, Aaron Saunders, said that in any event Stevens and his wife would continue to refrain from commenting on the investigation.

FBI spokesman Eric Gonzalez also declined to comment.

Penney would not discuss his testimony.

"All that stuff is confidential," he said from his home in Soldotna. Penney and Stevens are longtime friends and business associates. Every summer for more than a decade, Stevens and Penney bring VIPs to Alaska for the Kenai River Classic, a king salmon tournament that raises money for fish habitat.

Penney's attorney, Bruce Gagnon, said of Penney's appearance before the grand jury: "I think you know as well as I do what they're interested in." Asked whether that was Ted Stevens and Ben Stevens, Gagnon said, "Yeah, yeah."

"And why are they going off in Washington, D.C., as well as here?" Gagnon wondered out loud. "It may well be because they want to try this case back there."

Gagnon said he only knew of one witness -- Persons -- who had been called before the Washington grand jury.

In the face of two years of video surveillance of his company's suite in Juneau's Baranof Hotel and wiretaps on his telephones, Allen pleaded guilty in May to conspiracy, bribing legislators and violating tax laws. Smith, a fixture in that suite, also pleaded guilty. They face about 10 years in prison but hope to reduce their time by cooperating with prosecutors. Their sentencings have not been scheduled.

ALLUDING TO BEN STEVENS

The charging documents against Allen and Smith contained barely veiled references to Ben Stevens, alleging that "State Senator B" accepted \$243,250 in phony "consulting" payments from Veco in exchange for advice, lobbying colleagues and taking official acts. Ben Stevens' legislative disclosures say he received that amount of money from Veco for consulting. But nothing in those documents appeared to refer to Ted Stevens. However, a seemingly out of place sentence in a paragraph on Veco described the company's activities: "Veco was not in the business of residential construction or remodeling."

In interviews with the Daily News in May, Paone said he was hired by Allen to complete the framing and other carpentry on the addition. He said he submitted more than \$100,000 in invoices for the job to Veco. After Veco approved the invoices, he received a check in the mail from the Stevenses that appeared to have been written on a new account -- all the check numbers were in single or double digits.

Stevens' home sits about two blocks from the day lodge parking lot at the Alyeska ski area. It was a single story building until the expansion, when a house mover from Anchorage, Tony Hannah, jacked it up so a new living area could be inserted under the original house. A garage was also built.

Paone said he testified before a federal grand jury in Anchorage in December.

Last month, Stevens' office issued this statement about the investigation: "While I understand the public's interest in the ongoing federal investigation, it has been my long-standing policy to not comment on such matters. Therefore, I will withhold comment at this time to avoid even the appearance that I might influence this investigation."

ROLE OF GRAND JURIES

Legal experts in corruption cases said that while it's unusual for prosecutors to use grand juries in separate jurisdictions in an investigation, they may have sound reasons. The experts also cautioned that even though prosecutors may be presenting evidence to a grand jury, that doesn't mean crimes have been committed.

Paul Butler, a law professor at George Washington University and a former federal attorney who prosecuted a U.S. senator and several FBI agents, said it could simply be a matter of convenience for witnesses.

Jules Epstein, a law professor at the Widener University School of Law in Wilmington, Del., and a criminal defense lawyer, said the grand juries could be investigating separate, unlinked crimes.

Peter Henning, a law professor at Wayne State University in Detroit, said prosecutors might bring a case against a popular elected official in Washington to avoid being "home-courted."

Prosecutors don't take an investigation into a sitting member of Congress lightly, Butler said. They almost certainly must get the approval of the attorney general, he said.

Find Richard Mauer online at adn.com/contact/rmauer or call 257-4345.

