

City of Philadelphia
OFFICE OF THE INSPECTOR GENERAL



OFFICIAL MEMORANDUM
LP Group 2 – Prevailing Wage Payments

May 6, 2013

I. INTRODUCTION

At the request of the Mayor, the Office of the Inspector General conducted an investigation into the prevailing wage violations assessed to LP Group 2 and the subsequent payment of its employees for work performed on City contracts. This memorandum presents the findings.

In connection with two distinct City contracts, the Labor Standards Unit determined that LP Group 2, Inc., an entity owned by Garnett Littlepage, grossly underpaid its workforce. Although it was initially reported that the City never properly held the funds owed to the laborers, an OIG investigation confirmed that the Department of Finance diverted and held sufficient payments otherwise owed to LP Group 2, pending the outcome of a prevailing wage appeal. For one of the two contracts, the appeal was rejected and the appropriate funds were disbursed to the workforce. However, because the appeals process was never completed for a second City contract, additional funds owed to the LP Group 2 workforce were never distributed.

Part II of this memo presents the results of the OIG investigation, including background on the relevant City contracts, prevailing wage disputes and payment diversions to the workforce. Part III of this memo presents a brief analysis of the dispute, ultimately noting that the inactive status of LP Group 2's appeal to the City's Labor Standards Board has placed this issue in public view. Part IV of this memo presents two viable options to address the problem, and Part V presents one additional consideration tangential to the prevailing wage matter.

II. RESULTS OF INVESTIGATION

A. City Contracts - LP Group 2, Inc.

Garnett Littlepage (Littlepage) is the owner and listed President of LP Group 2, Inc. (LP2), an entity that held several City contracts from 2004 through 2009. At issue, are two of these contracts:

- (i) work performed in connection with the Neighborhood Transformation Initiative (NTI contract), and
- (ii) stucco work for the exterior of various City buildings (stucco contract).

Each of LP2's City contracts was administered through the Department of Licenses and Inspections (L&I). The laborers for these projects were hired through another Littlepage entity, Connection Training Services (CTS), a licensed non-profit that provides employment and educational services to underprivileged adults.

B. Labor Standards Citations

In connection with both LP2 contracts referenced above, the City's Labor Standards Unit investigated and assessed a variety of prevailing wage deficiencies. The Labor Standards Unit cited LP2 as owing \$195,901.27 to its work staff on the NTI contract, and \$116,222.83 to the workers on the stucco contract. In total, according to the Labor Standards Unit, LP2 owed its workers \$312,124.10.

C. Appeals and Litigation

LP2 challenged the Labor Standards citations for both contracts on similar grounds. Generally, LP2 argued that it was exempt from prevailing wage requirements, in part because the workers were staffed through a bona-fide

OFFICIAL MEMORANDUM

training program, CTS. Following two hearings, the Labor Standards Unit affirmed LP2's prevailing wage violations for both the NTI and stucco contracts. LP2 appealed the Labor Standards Unit's decisions to the Labor Standards Board.

For the stucco contract, the Labor Standards Board upheld the violations. LP2 unsuccessfully appealed this decision all the way to the Commonwealth Court of Pennsylvania, but eventually abandoned the litigation. The NTI violation, however, was never fully adjudicated by the Labor Standards Board. LP2's appeal to this body regarding the NTI contract is therefore still pending.

D. Diverted Payments to LP2 Workforce

Although it was initially reported that no funds were held, OIG investigation confirms that in April 2010, the City withheld a \$300,328.15 payment that would otherwise have gone to LP2 for work on the stucco and NTI contracts. Rather than hold the funds in the traditional manner through the City Controller, the City issued a \$300,328.15 check payable to LP2 "c/o the City of Philadelphia Finance Department." This check was later deposited into the City's general fund, pending the outcome of the prevailing wage appeals. The Department of Finance confirmed that the funds were deposited and appropriately earmarked for the NTI and stucco contract workforce.

1. Stucco Contract

Following the appeals related to the stucco contract, the City distributed \$106,098.61 of the \$116,222.83 owed to the LP2 workforce. The outstanding amount was not paid because two workers never came forward to provide the necessary paperwork for the City to process payment.

2. NTI Contract

Because LP2's appeal remains unaddressed, a total of \$194,229.54 (\$300,328.15 less \$106,098.61) remains available to the workforce of the NTI contract. Pending coordination with the City's Budget Bureau and appropriate certification from the LP2 workforce (including personal identification information and hours worked), these funds may be paid out of the Department of Finance's indemnity fund.

III. ANALYSIS

Despite initial reports, OIG investigation has determined that the City did, in fact, place the necessary and proper holds on payments due LP2 in connection with the NTI and stucco contracts. Although the hold was unconventional, the City currently has \$194,229.54 available to pay the LP2 workforce the appropriate compensation. Ultimately, because the Labor Standards Board never fully adjudicated the appeal, the dispute between LP2 and its workforce took place in the public forum, rather than the appropriate venue.

IV. RECOMMENDATIONS

In light of OIG findings, we present the following two possible solutions. Given the fact that the relevant funds are available, the City may either (i) immediately disburse the funds to the LP2 workforce pending the proper administrative steps, or (ii) expedite the matter through the Labor Standards Board.

OFFICIAL MEMORANDUM

Option 1: Pay the NTI Workers Out of Finance's Indemnity Fund

As noted above, of the original \$300,328.15 that was redirected, \$194,229.54 remains available for distribution to the LP2 workforce. The relevant individuals would, of course, need to come forward and provide appropriate verification information to Finance and the Labor Standards Unit, and the Budget Bureau would also need to verify the transaction.

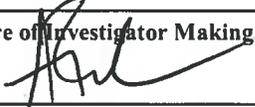
This option is the more aggressive. Formally, LP2 still has a pending appeal of the prevailing wage violation, which the City would be denying if payment is made directly to the workforce. That said, however, LP2 lost the appeal on the stucco contracts and would be raising substantively identical arguments. More than likely, the ultimate outcome of the NTI appeal is not in question, and the City has an opportunity for a swift resolution.

Option 2: Expedite the Matter through the Labor Standards Board

As noted, LP2's NTI appeal is still pending before the Labor Standards Board. If the Board is convened to address the issue, the matter could be formally addressed in time. Both LP2 and the workforce can raise the appropriate arguments in the appropriate venue, and the City can then be assured that the proper party is receiving the proper disbursement. While this option will expose the City to less risk, it will, of course, be a far lengthier process, depending on subsequent appeals.

V. DEBARMENT

Outside of the prevailing wage matter at issue here, debarment may also be warranted to prevent LP2 from participating in future City contracts. LP2's treatment of its workforce and Littlepage's false submissions to the City's Labor Standards Unit constitute proper grounds for debarment under Section IV(A) of the City's Debarment Policy, designed to ensure that City contractors are responsible and vendors are capable of performing in accordance with City contract requirements. In addition, because Littlepage owns (or is associated with) various other entities that regularly contract with the City, including Scotlandyard Security Services, the City's debarment action could possibly extend beyond LP2.

Distribution	No.	File:	Signature of Investigator Making Report:
Mayor's Office	1	LP Group 2, Inc.	
Other	1	Signature of Person Examining Report:	
			
		Title:	Date of Report
		Inspector General	May 6, 2013