

UNC audit finds spending issues but details kept secret | Raleigh News & Observer

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A preliminary rendering for the Fayetteville baseball stadium on Hay Street, which is part of a major redevelopment that includes a renovated Prince Charles Hotel.

A preliminary rendering for the Fayetteville baseball stadium on Hay Street, which is part of a major redevelopment that includes a renovated Prince Charles Hotel. HSK Design Inc.

Two years ago, an internal audit of a UNC-Chapel Hill program that helps communities with redevelopment found a no-bid contract given to a business with ties to a program employee, travel spending that lacked proper authorization, and undisclosed financial ties between an employee and dozens of other businesses.

But UNC officials aren't disclosing who got the contract, who spent the money on travel, or who had not disclosed all of their business connections.

The audit they released of the Development Finance Initiative is heavily redacted, with all names and businesses removed, making it impossible to know exactly what went wrong — and how UNC is making sure it won't happen again.

“There is no good reason to withhold this information — there simply is no good reason,” said Jonathan Jones, a Durham attorney and former director of the N.C. Open Government Coalition at Elon University. “And the only thing that it accomplishes by withholding it is to raise questions about whether everything here was done properly, and how the university handled this situation once they became aware of it.”

The News & Observer also asked for spending and business records — which are typically public — that were used for the internal audit's findings. UNC denied them, claiming they were “work product” considered private under state law.

[North Carolina's public records law requires all information held by state and local government to be public, unless there is a specific exception.](#) The law is crucial to the public's understanding of how government works, and many cases of wrongdoing have been revealed through the release of public records.

When government officials deny information to news organizations or individuals, the only option available to them is to sue in court. That's often an expensive, time-consuming process. A judge has the discretion to award legal expenses if government officials withhold records that should have been released. (This is Sunshine Week, when news media emphasize the importance of open government.)

The N&O received the redacted audit in response to a public records request for records about the Development Finance Initiative, an eight-year-old program within UNC's School of Government.

UNC officials say they launched the DFI to help communities struggling to redevelop distressed areas by providing master planning and financing expertise to make the properties more attractive to developers. DFI charges communities fees based in part on ability to pay, and in some cases does the work at no charge.

The audit, dated May 19, 2017, was launched after UNC received a report of allegations involving “possible improper procurement of services and potential conflicts of interest with a vendor.”

The audit found that at one point, the School of Government’s former dean for administration flagged a proposal to hire a vendor that was owned by a DFI employee. A new proposal was floated naming a different individual who also had business ties to a DFI employee, and the sole source contract was approved.

“The association was not disclosed and the contract for services was awarded via a sole source procurement,” the audit said.

The audit found UNC received “appropriate value” for the vendor’s services, but said it represented a conflict of interest.

The School of Government agreed with the audit findings, but said the DFI employees involved were “honest, loyal and passionate about the mission of DFI and the School of Government.”

In a telephone interview, DFI Director Tyler Mulligan and Tom Thornburg, the School of Government’s senior associate dean, said they could not identify the employees and businesses involved in the audit. They said a DFI employee created the vendor to handle operations in DFI’s Durham office, paying rent as well as compensation and expenses for DFI contract employees who worked with communities.

The audit also found \$14,900 in travel expenses that lacked proper authorization, including some provided after “orally modified agreements.” In one case, DFI reimbursed an employee’s work-related travel for a year after the employee had moved out of state, Mulligan said.

The school said in the audit it would reimburse the university. Thornburg said the money is coming out of school foundation funds.

Gavin Young, UNC’s senior director for public records, said in email correspondence to the N&O that the audit needed to be redacted because it dealt with personnel matters.

But the N&O’s attorney, Amanda Martin, in a response letter, said audits are not defined as protected records under the personnel law, and therefore should be released without redactions. State agencies also have the discretion to disclose protected personnel records under what is known as the “integrity exemption” to show they are acting responsibly in the public interest.

David T. Lambeth III, an assistant UNC counsel, released a second copy of the audit on Jan. 31 that continued to redact names of employees and businesses, but did make public that a DFI employee had not disclosed to UNC ties to 47 other businesses.

Most of those businesses were engaged in real estate or community development.

Nearly half of them were in operation at the time of the audit. None of them received payments from UNC, the audit said.

The N&O requested DFI documents in May 2018. UNC released the majority of the records, including the internal audit, in October. The N&O sought the records after learning that the program's former manager, Michael Lemanski, had launched or joined private redevelopment projects in two communities that had received DFI assistance.

The most prominent example is Fayetteville, which in May 2014 paid DFI \$50,000 to review three areas city officials sought to redevelop. One was a residential area, the second the dilapidated Prince Charles Hotel in downtown and the third a commercial area near the Airborne and Special Operations Museum. The city envisioned landing a minor league baseball park on the third site.

About a month after the contract's completion date, Lemanski joined Prince Charles Holdings, a group redeveloping the vacant hotel into apartments. Jordan Jones, a DFI employee who had also worked on the Fayetteville project, is also working for the hotel group.

In 2016, the city shifted the proposed ballpark next to the hotel, as part of a much larger redevelopment that includes a parking deck and a new hotel. The redevelopment included the city purchasing for \$2.5 million in 2017 a parcel from Prince Charles Holdings. The business had bought the parcel for \$2.07 million two years earlier.

Lemanski is a well-known developer in the Triangle, particularly in Durham. At one point, one of his businesses, Greenfire Development, owned a big chunk of downtown Durham, including the former SunTrust Building that is now the upscale 21c Museum and Hotel.

During his tenure at DFI, the program worked on close to 100 projects in communities across the state that brought in over \$2.3 million in fees. A \$1 million grant from the Local Government Federal Credit Union in Raleigh helped launch DFI.

In early 2018, Monica Vendituoli, then a reporter for The Fayetteville Observer, inquired about Lemanski and Jones' work for DFI and the Prince Charles group. In an email to UNC, she raised concerns that their dual roles had created a conflict of interest and sought related records.

UNC did not provide her a copy of the audit. UNC gave her a statement that said some details regarding potential conflicts of interest were "confidential personnel file information" that couldn't be disclosed.

The statement also said the School of Government terminated work related to the Prince Charles Hotel "as soon as it became aware there was a possible conflict of interest. The School of Government made this decision to avoid any potential conflict of interest."

In an internal memo school officials drafted for UNC-Chapel Hill Chancellor Carol Folt shortly after the audit, they noted that most of its findings involved an employee who was no longer at the school.

"We no longer contract with an entity to provide services that was identified in those

findings as associated with that employee,” the memo, dated June 28, 2017, said. “We have created a strong conflicts policy for DFI that has been reviewed by the university Conflict of Interest office and by university counsel.”

The following month, Triangle Business Journal published a feature story about DFI, and noted that Lemanski had recently left. The story gave no indication Lemanski had done anything wrong. UNC records show his last day was June 2, 2017. He had been making nearly \$106,000 a year.

“Lemanski, DFI’s director since 2011, recently left DFI to start his own real estate capital investment firm, Rivermont Capital, understanding that some of the work he would be doing might create a conflict of interest with the university’s work,” the journal reported.

It reported Mulligan had told the journal that Lemanski “left DFI with his blessing because his new company could help provide seed funding for some of the projects DFI is pitching to private developer firms.”

“Michael and I had been talking about for about a year and a half about how to get some of these banks and capital investors to the table and invest in some of these small community projects,” Mulligan was quoted as saying. “That’s Michael’s new job. He can help us understand what investors would really be interested in and what they’d be willing to invest in. He will still be a strong ally.”

Mulligan and Thornburg said they could not comment on any conflict-of-interest matters taken up regarding DFI employees. They said conflict-of-interest reviews have been conducted, but none were turned over to the N&O.

Mulligan said the new conflict of interest policy is intended to prevent DFI employees from developing projects off of the work they do for their public clients. He said he has also created a system through Dropbox to keep DFI employees from viewing work on community projects they haven’t been assigned to.

Efforts to interview Lemanski, Jones and School of Government dean Michael Smith by phone and email were unsuccessful. Lemanski, in an email response, made no mention of any conflict of interest issues.

“I had a great experience at the UNC SOG helping launch DFI,” he wrote. “DFI has built an impressive track record and reputation with its clients. Starting Rivermont Capital was an obvious next step for me to further my efforts in helping revitalize distressed communities.”

Vendituoli’s inquiry did not result in a published story. She left the Fayetteville newspaper a few months later and now works for the Denver Business Journal. She said she could not comment on her work for her former employer.

This article is part of a statewide series of stories for [Sunshine Week](#), a national celebration of open government and the public’s right to know that takes place every March.



Dan Kane covered local government, higher education and the state legislature for The News & Observer before joining the investigative team in 2009.
