

**Internal Audit Report 16-04**  
**Sioux Falls Development Foundation: Foundation complying with  
agreement with City and encouraged to measure outcomes of  
economic development efforts**  
**August 2016**



City of Sioux Falls  
Internal Audit Department  
Carnegie Town Hall  
235 W. 10<sup>th</sup> Street  
Sioux Falls, SD 57117-7402  
[www.siouxfalls.org/council/internal-audit](http://www.siouxfalls.org/council/internal-audit)

## **SIoux FALLS DEVELOPMENT FOUNDATION INTERNAL AUDIT REPORT 16-04**

### **INTRODUCTION**

This is the first internal audit of the agreement between the City of Sioux Falls and the Sioux Falls Development Foundation. This audit was not included in the 2016 Annual Audit Plan. The Audit Committee of the City Council reviewed and approved this special audit work request at the Committee's July 21, 2016 meeting.

### **BACKGROUND**

In 1954, a group of business leaders created the Sioux Falls Development Foundation, a non-profit, economic development organization with the stated purpose of promoting the city of Sioux Falls and surrounding communities by fostering business and employment. 22 voting members of the board of directors provide oversight and governance of the Development Foundation and its employees. The Development Foundation performs the following work:

- Facilitates the attraction of new businesses.
- Facilitates the retention and expansion of existing firms.
- Provides business location services for new and expanding firms.
- Provides comprehensive information on available sites and buildings, utilities, demographics, labor information, business and tax climate, and quality of life.
- Develops the Sioux Empire Development parks (home to more than 13,000 employees).

The Development Foundation is funded through a variety of sources including memberships and contributions from the City of Sioux Falls, Minnehaha County, and Lincoln County. Revenues are also generated through land sales in the Development Foundation's industrial parks. The City of Sioux Falls has contributed \$275,000 per year for the years 2012 through 2014. Per an annual agreement between the City and the Development Foundation, \$175,000 is to be used for various services and tasks related to economic development and retention strategies and \$100,000 is considered discretionary by the City and provided to the Foundation for a Special Projects Fund. In the 2015, the City contributed \$175,000 to the Development Foundation's work. The Specials Projects Fund did not receive City funding in 2015.

### **OBJECTIVES**

The objectives of this audit were to:

1. Determine if the Sioux Falls Development Foundation is in compliance with the terms of Section One of the 2015 agreement. Section One delineates the services to be provided by the Foundation.

2. Determine what the Sioux Falls Development Foundation has specifically done with the Special Projects Fund money, as described in Section One of the 2015 agreement.

## **SCOPE AND METHODOLOGY**

The scope of this audit included the most current agreement between the City and the Development Foundation. At the time the audit work began, this was agreement 15-4092 executed by the Mayor on August 19, 2015 after approval by the City Council at their August 18, 2015 meeting. The focus of this audit is on compliance with Section One of the Development Foundation agreement, including the Special Projects Fund. The scope of audit objective two is the expenditures from the Special Projects fund for 2012-2015. Our methodology included:

- A review of the agreement.
- Interviews with employees of the City's Economic Development Division.
- Interviews with employees of the Sioux Falls Development Foundation.
- A review of accounting records of the City of Sioux Falls and the Development Foundation pertinent to the agreement.
- A review of minutes from the Development Foundation's Board of Directors.
- A review of the Development Foundation's 2015 Annual Report.
- A review of presentations to the City Council on the Foundation Park, a new development project located in northwest Sioux Falls.
- A review of the results of the Development Foundation's 2014-2015 financial statement audit performed by an independent Certified Public Accounting firm.
- Research into performance measures for economic development organizations.

## **RESULTS**

### **Section One: Services to be Provided**

The Foundation is required by Section One to provide various services and tasks to the City such as promoting job growth, tax base growth, and assisting the City with developing any ordinance amendments or other programs and initiatives that affect economic development. They are also required to work closely with the City's Economic Development Division. We concluded that the Foundation is in compliance with providing these services and tasks to the City.

Section One further specifies that the City will fund a Special Projects Fund for the purposes of economic development retention, recruitment, and expansion efforts. In years 2012-2015<sup>1</sup> this amount, according to the agreement, has been \$100,000 per year. The

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<sup>1</sup> The City did not provide the \$100,000 funding in 2015 because it is considered discretionary by the City.

funds expended from money provided by the City in the Special Projects Fund must be matched by the Foundation’s own funds or an in-kind contribution. In the aggregate, they must average a dollar-for-dollar match. We concluded that the Foundation is matching the City’s contributions for projects in the Special Projects Fund either with the Foundation’s own funds or an in-kind contribution as required by the agreement with the City. We further concluded that the Special Projects Fund is being used for the purposes specified in the agreement.

**Special Projects Fund**

The City provided \$100,000 to the Foundation for the special projects fund each year for 2012, 2013, and 2014. No funds were provided in 2015 because this funding is discretionary according to the agreement and the Foundation did not have a specific use for the money in 2016. The money provided by the City was used by the Foundation for the following purposes:

<u>Date</u>	<u>Amount</u>	<u>Description</u>
2012	\$65,000	Paid to Glanbia Nutritionals as an incentive from the City for building a facility in Sioux Falls.
	30,000	Paid to Sorlien Electric for electrical switch gear on behalf of Twin City Fan locating to Sioux Falls.
	67,500	Paid to the USD Research Park to fund master planning.
2014	12,500	Paid to the USD GEAR Center for a pharmacological pilot manufacturing facility.
2015	13,316	Paid for various technology equipment on behalf of The Bakery, LLC. This organization supports business start-ups in Sioux Falls.
	20,000	Commitment to active prospect Project Longhorn. It is intended to provide funds for developing a master plan for their specific Sioux Falls site. This is a commitment only; no money expended.

NOTE: The Glanbia Nutritionals plant was expected to employ 35 workers. The money was given upon receipt of a certificate of occupancy and major processing equipment installed. The electrical switch gear for Twin City Fan had a five-year, \$1 per year lease. After five years, if Twin City Fan is still in operation, the switchgear belongs to them. If they leave Sioux Falls before then or go out of business, the switchgear belongs to the Foundation and could, in turn, be sold or donated as appropriate for an economic development purpose. \$91,684 is currently in the Special Projects Fund.

## **CONCLUSION**

The Sioux Falls Development Foundation is complying with the terms of Section One of the 2015 agreement with the City of Sioux Falls. The Foundation is very active in promoting job growth, attracting and retaining employers, and marketing the city and the local area to potential employers. The working relationship between the Foundation and the City's Economic Development Division is described by both parties as a close and cordial relationship. The Special Projects Fund is being used for economic development purposes and is done so with the consultation and consent of the City's Economic and Development Division as required by the agreement.

The scope of this audit was restricted to determining the Foundation's compliance with the agreement with the City of Sioux Falls. However, while performing research for this audit we noted that there have been several research efforts into measuring economic development efforts.<sup>2</sup> Research papers urge economic development organizations to measure outcomes and not just outputs. Outputs are things an organization or community does to create outcomes. Outcomes are the changes that an organization or community hopes to see as a result of their actions. A question that might be answered and reported, for example, is how much do the created jobs pay and is this compensation a livable wage.

The Foundation's management and the City's Economic Development Division (EDD) are aware of these studies. They are also aware that outcomes are not entirely within their control. Outcomes depend upon the efforts of many organizations. However, since taxpayers are seeking results, we encourage the EDD and the Foundation to work together to identify and measure outcomes of economic development efforts.

We wish to thank the staff and management of the Foundation and the City's EDD for their courtesy and cooperation during this audit.

## **AUTHORIZATION**

Internal Audit Division operates under the authority of an Internal Audit Charter adopted by City Council resolution 11-13.

## **AUDIT STANDARDS**

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

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<sup>2</sup> For example: *Performance Metrics Matter, Go Beyond Counting Jobs to Create a Highly Effective Comprehensive Development Strategy*, a Publication of the National Association of Development Organizations (NADO) Research Foundation with Support from the U.S. Economic Development Administration (EDA), August 2012 and Rural Research Report: *Measuring the Impacts of Economic Development*, a publication of the Illinois Institute of Rural Affairs, Spring 2015

## **STATEMENT OF INDEPENDENCE**

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per section 32.022 of the Code of Ordinances of Sioux Falls, SD.

## **DISTRIBUTION OF REPORT**

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record and its distribution is not limited.

## **PERFORMED BY**

Rich Oksol, CPA, CGAP  
Internal Audit Manager