2.28 EDGE Program

Introduction

The *Economic Diversification and Growth Enterprises Act* became effective on 1 January 1995. The creation of this *Act* was to encourage new businesses to start or expand in Newfoundland and Labrador. The *Act* is administered by the Department of Innovation, Trade and Rural Development, with tax incentives administered in conjunction with the Department of Finance.

The Department has established specific criteria which each EDGE corporation must meet and maintain in order to receive EDGE approval and incentives. Figure 1 provides the Program criteria.

Figure 1

Department of Innovation, Trade and Rural Development
Economic Diversification and Growth Enterprises Program
Eligibility Criteria

Criteria
- Potential for capital investment of at least $300,000 or annual sales of at least $500,000
- Potential for the creation and maintenance of at least 10 permanent jobs in the Province
- Business activities offer the opportunity for long-term sustainable jobs and growth
- Business activities offer a substantial net economic benefit to the Province
- Business activities would not be undertaken within the Province or at the time of application without the presence of EDGE incentives
- EDGE incentives provided to the business would not provide a direct competitive advantage over other businesses established in the Province

Companies make application to Government for EDGE status and the Department performs an assessment of the criteria. The Departmental assessments are forwarded to the EDGE Board which makes recommendations to the Lieutenant-Governor in Council (Cabinet). Pursuant to the *Act*, the Board is comprised of public and private sector members appointed by Cabinet.

Under the *Act*, the EDGE program initially provided significant tax incentives over a 10 year period with a phase down period of 5 years, a $2,000 grant for each permanent job created during the initial 5 year term of the contract, access to unserviced Crown Land for $1, and the availability of EDGE facilitators to assist with regulatory requirements. Effective 1 April 1997, the $2,000 start-up job grant for new EDGE

companies was discontinued and the retail sales tax incentives, other than for insurance premiums, were no longer applicable with the establishment of the harmonized sales tax system.

Effective 1 January 2002, amendments to the *Act* introduced a new 50% rebate on Federal corporate income tax for eligible EDGE corporations, an increase in the eligibility period from 10 years to 15 years for EDGE companies outside the northeast Avalon, and more stringent conditions relating to eligibility criteria in that corporations must achieve and maintain and not just show potential to achieve and maintain the criteria. These changes only apply to EDGE corporations which applied after 1 January 2002.

Scope and Objectives

Our review of the EDGE program was completed in October 2004. The objectives of our review were to assess whether:

- EDGE corporations are properly assessed, approved and monitored; and
- program objectives, performance indicators and measurable targets have been established, and actual results are measured and reported against these targets.

Conclusions

The Department of Innovation, Trade and Rural Development's objective for the EDGE program is to encourage new businesses to start or expand in Newfoundland and Labrador. However, since the Department has not established specific targets for the program, it cannot determine whether the program objective is being met or whether the EDGE program is a success. Our review indicated the following:

- As of June 2004, 53 (43%) of the 122 EDGE corporations which were approved under the EDGE program since it began in 1995 had their EDGE status revoked by Cabinet for failing to meet the requirements of the program. The remaining 69 approved EDGE corporations reported employment and capital investment for 2004 far below the total amounts projected.
- While employment and capital investment by EDGE corporations are two of the main EDGE program performance indicators, these indicators have shown a significant decrease between 2001 and 2004. The estimated employment declined from a projection of 3,850 jobs in 2001 to a projection of 2,777 in 2004, with actual reported employment for 2004 of only 1,473. The estimated amount of capital investment declined from a projection of $1.12 billion in

2001 to a projection of $187.9 million in 2004, with actual reported investment for 2004 of only $70.3 million.

The Department of Innovation, Trade and Rural Development is not adequately monitoring program activity. As a result, neither the Department nor the House of Assembly can determine whether the program has been successful in meeting its objective. In particular:

- the Department has not established specific targets in the areas of jobs created, capital invested, incremental sales and "substantial" net economic benefit to the Province;
- the management information system used by the Department to record information on each EDGE corporation is not being used for monitoring and periodic reporting;
- EDGE corporations are not always providing annual reports to the Minister as required and the Department is not always following up with the corporations to obtain these reports; and
- neither the Department of Innovation, Trade and Rural Development nor the Department of Finance receive information on all incentives provided to EDGE corporations.

EDGE applications are not always approved on a timely basis and in accordance with the *Economic Diversification and Growth Enterprises Act*. The average time delay between the receipt of the application and the approval by Cabinet was 7 months. One application was not approved until 11 months after the application was received. These delays are in large part due to infrequent meetings of the EDGE Board and the fact that Cabinet is not providing its decision within the 30 day timeframe set out in the *Act*.

Corporations that qualify for EDGE status are provided certain tax incentives and prior to 2003 were provided with wage grants. Our review indicated that incentives provided to some EDGE corporations were not adequately supported.

Findings and Recommendations

Application Process

From the implementation of the EDGE program in 1995 to 15 June 2004, the Department had received 298 applications for EDGE status. Of these 298 applications, 192 were assessed and provided to the EDGE Board for recommendation and 106 did not provide the necessary information to assess the application or were withdrawn by the company or are still in the

assessment phase. Figure 2 summarizes information gathered during the application process.

Figure 2

Department of Innovation, Trade and Rural Development
Economic Diversification and Growth Enterprises Program
Statistical Information

	6 Oct. 95	14 Oct. 98	30 Oct. 99	10 Nov. 00	24 Oct. 01	8 April 03	15 June 04
Approved applications	28	86	97	108	114	120	122
Rejected applications	21	55	59	63	66	70	70
Deferred applications	11	3	5	6	6	6	0
Total applications assessed	60	144	161	177	186	196	192
Revoked applications	(1)	(20)	(30)	(37)	(42)	(53)	(53)
Active EDGE companies	Not available	Not available	Not available	41	46	46	50
# of estimated jobs on applications approved	666	2,452	3,549	3,656	3,850	2,950	2,777
Amount expected to be invested in capital	$194.2 M	$164 M	$1.12 B	$1.14 B	$1.12B	$1.07B	$187.9 M

Source: Department of Innovation, Trade and Rural Development

As the Figure shows, both the number of estimated jobs and the expected amount of capital to be invested dropped significantly between 2001 and 2004.

As of June 2004, 53 of the 122, or 43% of EDGE corporations which were approved EDGE since 1995 had their EDGE status revoked by Cabinet. This is an increase of 11 revoked applications since October 2001, an increase of 26%.

A significant portion of the decrease in the number of estimated jobs related to the EDGE status for Friede Goldman Newfoundland Limited (Marystown shipyard) being revoked in October 2002. The Department indicated that in 1998 this company had estimated that 900 jobs would be created.

Similarly, a significant portion of the decrease in the expected amount of capital to be invested related to the EDGE status for two related companies being revoked in March 2004. The Department indicated that in 1999 these companies had estimated that $883 million would be invested.

Only 8 companies have been approved EDGE status since 1 January 2002. In order to qualify for EDGE status a company must submit an application and meet certain eligibility criteria.

1. Application Assessment and Approval

Applications for EDGE are submitted to the Department and are to be accompanied by a business plan. Applications are assessed by the Department's two Industrial Developmental Officers and forwarded to the EDGE Board which makes recommendations to Cabinet for approval or rejection.

From 1 January 2002 to 15 June 2004, the Department received 33 applications for EDGE approval. As at 15 June 2004, the Board recommended that 7 of these 33 applications, as well as 1 application received prior to 1 January 2002, be approved by Cabinet. A review of these 8 applications indicated that they were not approved on a timely basis and in accordance with the *Act*. For example:

- The average time delay between the receipt of the application and the approval by Cabinet was 7 months. One application was not approved until 11 months after the application was received. Officials indicated that the main reasons for these delays are the EDGE Board does not meet on a regular basis, Cabinet is not providing its decision within the 30 day requirement of the *Act* (i.e. after receipt of the Board's recommendation), and EDGE companies do not provide information on a timely basis.

  Although the *Act* provides for the appointment and composition of the Board and states that applications shall be evaluated by a Board, there is no provision for how often the Board should meet. Our review indicated that the Board has only met six times from 1 January 2002 to October 2004.

  Although the *Act* requires Cabinet to make its decision on a corporation's EDGE designation within 30 days of the Board's recommendation, our review indicated that the average time between the Board's recommendation and Cabinet's approval was approximately 105 days.

- The *Act* requires that the Minister of Innovation, Trade and Rural Development give notice to the House of Assembly within 15 days after the signing of an EDGE contract or within 15 days after the next House sitting if the House of Assembly was not in session. However, officials indicated that no notices were made by the Minister to the House of Assembly for the 8 EDGE corporations approved since 1 January 2002.

2. Eligibility Criteria

The Department has established specific criteria which each EDGE corporation must meet and maintain in order to receive EDGE approval and incentives. Our review of documentation supporting the 8 approved EDGE corporations since January 2002 indicated that one corporation did not meet all of the criteria.

Although one of the criteria is that business activities would not be undertaken within the Province or at the time of application without the presence of EDGE incentives, the company did not meet this criterion. This company had already started the proposed operations prior to the approval of its application in August 2003. Therefore, business activities had been undertaken before the company received EDGE status and as a result, the company did not meet this criterion.

Program Monitoring

A company approved under the EDGE program can receive benefits for up to 20 years. It is therefore important that these companies be monitored to ensure that the requirements of the program continue to be met. In order to monitor the results of the EDGE program we would expect the Department to have documented policies and procedures, a management information system to record expected and actual results for each EDGE corporation, and timely and relevant reporting. In addition, we would expect incentives provided to EDGE corporations to be properly approved and supported.

1. Policies and Procedures

The Department has established policies and procedures for the monitoring of EDGE corporations to determine if they are maintaining program criteria.

2. Information Systems

The Department has a management information system which records application and approval information for each EDGE corporation and information received from each EDGE corporation on their actual progress in meeting and maintaining program criteria. However, our review indicated that the information system is not being used for monitoring and periodic reporting. As a result, the Department cannot adequately monitor program activity. For example:

- The Department provided a listing of the 298 projects which reported information related to the application date, date received, capital investment, annual sales, jobs created, type of business and the status of the application. However, the listing did not include project numbers 1216 to 1259. This was brought to the attention of Departmental staff, and after searching through the EDGE database, a revised report was prepared with all projects included.

- Although information regarding applications approved, rejected, deferred, incomplete, or withdrawn is recorded in the system, reports providing this information cannot be generated by the system. Department officials indicated that the information must be extracted from the system, and compiled separately. These reports are only compiled to meet specific requests.

- The last status report was prepared by the Department in May 2004 which covered the period ending 31 December 2002. This report provided information such as location, activity type, year approved, type of business (new or expansion), capital investment made, jobs created, amount of incentives granted to date.

3. Reporting by EDGE Corporations

EDGE corporations are required to report annually in prescribed format to the Minister on the progress made in implementing its business proposal and compliance with the terms and conditions of their contract within 90 days of its fiscal year end. The annual report must include a report from the corporation's auditor stating whether the corporation complied with the terms and conditions of the EDGE contract. Officials indicated that the Department will notify EDGE corporations in writing if annual reports are not submitted on time.

2.28 EDGE Program

We examined 13 EDGE corporations and determined that EDGE corporations are not always reporting to the Minister as required and that the Department is not always notifying the corporations of their non-compliance. As well, the reports do not always include the required auditor's report. Without complete and timely reports, the Department cannot determine whether EDGE corporations continue to meet eligibility requirements, whether actual results compare with expected results and whether program objectives are being met. Our review identified the following:

- None of the 13 EDGE corporations examined submitted all of their annual reports within 90 days. Of the total 76 annual reports to be submitted by these 13 corporations, only 3 were submitted within 90 days. One EDGE corporation submitted its annual reports for 1997 to 2000 in September 2001. Another EDGE corporation has not submitted an annual report subsequent to its 2000 report. Two other EDGE corporations have not submitted any of their annual reports since being approved (in 2001 for one corporation and in 2002 for the other).

- While Departmental officials indicated that some EDGE corporations were notified verbally where an annual report was late, the Department did not notify 12 of the EDGE corporations in writing in 26 instances where an annual report was late.

- 2 EDGE corporations did not include an auditor's report in 5 annual reports and 4 EDGE corporations did not attach a copy of their financial statements to 6 of their annual reports as required.

The Department monitors the criteria requirements relating to employment through the submission of the annual reports; however, the Department does not conduct regular site visits to EDGE corporations. Such site visits would provide further evidence of whether EDGE corporations' activities continue to meet eligibility requirements.

One EDGE company reported 6 employees in 2001 which were related to EDGE activities; however within the next two years this number increased to 13. Our review indicated that in 2002, the company transferred certain equipment from non-EDGE activities to EDGE activities and sales related to EDGE activities increased from 11% in 2001 to 50% in 2003. There was no evidence on file to indicate that the Department conducted a site visit or otherwise ensured that changes were reasonable and whether they would impact EDGE incentives.

4. Program Incentives

Corporations that qualify for EDGE status are provided certain incentives such as tax incentives and prior to 2003 were provided with wage grants. Our review indicated that incentives provided to some EDGE corporations were not adequately supported. For example:

- In one instance a corporation has not submitted any annual reports as required by the *Act* for 2001 onwards; however, it continues to receive incentives such as payroll tax forgiveness under the program.

- Four of the 13 EDGE corporations we reviewed received start-up job grants of $2,000 for each job created. The last incentive grant paid out was in 2002. Our review indicated the following:

  - Although the Department uses a standard 1,820-hour work year for its calculation of jobs created, the number of jobs created for one EDGE corporation included hours in excess of the 1,820 standard. As a result, the number of jobs created was overstated. For 1998, the EDGE corporation included 42 employees with hours in excess of 1,820 hours and for 2000, there were 112 employees with hours in excess of 1,820 hours. In 2000, one employee reported working 3,144.5 hours. For this one employee, an incentive grant was paid out which accounted for 1.73 employees or $3,460.

  - One EDGE corporation's employee listings included international employees which the corporation excluded in its incentive grant calculation from 1998 to 2000. However, in 2001, although the international employees were excluded from the total number of employees, their days of work were still included in the calculation of incremental employment created. Although this information was available to the Department, officials did not follow-up on this inconsistency.

  - One EDGE corporation did not provide a listing of 12 salaried employees in 1998 which accounted for 499 hours of employment.

Performance Reporting

In order to provide good performance reporting, strategic objectives must be clearly defined, performance indicators which allow the evaluation of program objectives must be identified, targets for these indicators must be set, and actual performance must be reported against these targets.

1. Strategic Objectives

The Department has established broad goals for the program. The EDGE program was established in 1995 as a strategic economic development and marketing tool to encourage new business investment in the Province to help diversify the economy and stimulate new private sector job creation, especially in rural areas.

2. Performance Indicators

The Department has identified certain performance indicators to evaluate its objectives. These performance indicators include jobs created, capital invested, incremental sales, and a substantial net economic benefit to the Province.

3. Measurable Targets

The Department has not established specific measurable targets for each of these performance indicators. As a result, the Department cannot compare actual results to targets in order to determine if program objectives are being met. The Department does record the expected number of jobs to be created, investment of capital and incremental sales for each approved EDGE corporation; however, this only provides targets for measuring what the program is doing, not what the program can or should do. In addition, the Department has not quantified what would qualify as a "substantial" net economic benefit.

4. Performance

The Department reports on the actual results of the EDGE program each year in its annual report, which is tabled in the House of Assembly. Information reported includes the number of new approvals, current active EDGE corporations, employment created and investment made in capital. However, since the Department has not established specific targets it can not report on whether program objectives are being met. In addition, other actual results of the program such as the number of applications received, the number of approvals revoked, the amount of incentives provided, EDGE companies not complying with reporting requirements, and whether the program continues to provide a substantial net economic

benefit to the Province are not reported. Without this information, the Department and the House of Assembly cannot determine whether the program is meeting its objectives.

Our review indicated the following:

- Two of the main EDGE program performance indicators have shown a significant decrease between 2001 and 2004 - the estimated jobs declined from 3,850 in 2001 to 2,777 in 2004 and the expected amount of capital to be invested declined from $1.12 billion in 2001 to $187.9 million in 2004.

- The 69 approved EDGE corporations had projected employment for 2004 totalling 2,777 and estimated capital investment for 2004 of $187.9 million. However, as of June 2004, these 69 companies had only reported employment of 1,473, and capital investment of $70.3 million.

- The Department does not report the breakdown of each job created between full-time, part-time and seasonal employees. Such a breakdown is important for the Department to be able to assess the impact of jobs created as a result of the EDGE program. For example, a review of one of these companies indicated that the EDGE report received for 2000 reported 272 person years of employment created for 553 employees. We note that 82 of these 553 employees were employed for less than 100 hours during the year.

- As part of its assessment process, the Department of Innovation, Trade and Rural Development provides financial information gathered in the application process to the Projects Analysis Division of the Department of Finance who in turn inputs the information into a computerized economic impact analysis to determine the net economic benefit to the Province. Although this process is performed in the assessment phase based on projected financial information, the Department does not conduct this assessment each year with actual financial information to ensure that business activities achieve and maintain a substantial net economic benefit to the Province.

- The Department of Finance administers tax incentives provided to EDGE corporations. The Department of Finance reported approximately $6.1 million in tax incentives either refunded or forgiven by the Province to EDGE corporations since the inception of the EDGE program in 1995.

2.28 EDGE Program

The Department of Innovation, Trade and Rural Development administered the start-up job grants up until 2002, the last year grants were provided. The Department of Innovation, Trade and Rural Development reported approximately $1.9 million in start-up job grants.

Figure 3 provides details on these incentives.

Figure 3

Department of Innovation, Trade and Rural Development
Economic Diversification and Growth Enterprises Program
Incentives Provided to EDGE Corporations
1995 to 2004

Incentive Provided to EDGE Corporation	Amount Approved	Amount Paid	Amount Forgiven
Corporate income tax	$1,768,546	$1,768,546	$ -
Retail sales tax	1,778,542	1,778,542	-
Payroll tax	2,549,589	279,174	2,270,415
Total tax incentives	6,096,677	3,826,262	2,270,415
Start-up job grants	1,861,746	1,861,746	-
Total	**$7,958,423**	**$5,688,008**	**$2,270,415**

Although the Province reports the refund of corporate income taxes in the notes to the Schedule of Current Account Revenue of the Public Accounts; it does not report the amount of forgiven payroll tax for EDGE corporations in the Public Accounts of the Province. As a result, the Province has not reported over $2.5 million in forgiven payroll tax revenues since 1995.

Our review indicated that not all incentives provided to EDGE corporations are reported by Government. Without complete and accurate information on the cost and benefits of the EDGE program, Government cannot determine the overall success of the program in meeting its objectives. For example:

- The Department of Finance reported that 30 EDGE corporations had not registered for purposes of payroll tax reporting. Department officials indicated that 12 of these companies have exceeded payroll tax exemption amounts since being approved; however, the Department has not determined whether these 12 corporations have reduced any payroll tax otherwise payable by the amount of the EDGE payroll tax incentive. Discussions with Department staff indicated that unregistered EDGE corporations have been notified and that the Department is in the process of collecting payroll information for any applicable previous years.

- The Department of Finance uses a spreadsheet program to record incentives approved and provided to EDGE corporations. However, at the time of our review this spreadsheet was not updated to show all incentives provided. A review of a sample of 13 EDGE corporations identified approximately $299,000 in forgiven payroll tax for 3 corporations which were not reported in the spreadsheet.

- One EDGE corporation, which registered under the payroll tax in 1996, reported employment ranging from 39 in 1997 to 90 in 2001 through the annual reporting process; however, it has not reported any payroll information to the Department of Finance for these years. The Department of Finance has requested this information but the company had not responded as at October 2004. As a result, the Department is not aware whether this corporation had reduced any payroll tax otherwise payable, by the amount of the EDGE payroll tax incentive.

- A municipal authority may grant a remission of property and business tax to an EDGE corporation which establishes or expands a business activity within its boundaries. The Department of Innovation, Trade and Rural Development reported that 45 municipalities had adopted the remission of municipal taxes for 10 or 15 years. The Department, however, does not request from the municipalities the number of EDGE corporations that were provided with incentives or the amount of taxes forgiven each year. Without this information, the Department cannot determine the success of the EDGE program as it relates to municipal incentives.

2.28 EDGE Program

Recommendations

The Department should ensure:

- *applications are approved on a timely basis;*
- *EDGE corporations meet and maintain program criteria;*
- *the EDGE management information system is used in the monitoring and reporting of the EDGE program;*
- *EDGE corporations submit annual reports as required and are notified on a timely basis of non-compliance;*
- *all incentives provided to EDGE corporations from all sources are supported and recorded in the Department's management information system; and*
- *performance indicators are clear, measurable performance targets for these indicators are established, actual results are assessed against these targets, and results are reported to the House of Assembly.*

Department's Response

EDGE was designed to encourage new business start-ups and expansions in the Province. EDGE is performance based - companies must pay taxes in order to receive the EDGE benefits.

Your report concludes that because the Department has not established specific targets for the program, it can not determine if EDGE is a success. The Department has established performance indicators (jobs, investment), but has not established measurable performance targets for these indicators. The Department has been working on the issue over the past year and will establish measurable performance targets for EDGE beginning in 2005.

Your review indicates that over 40% of the companies that received EDGE have since had their EDGE status revoked and that the EDGE companies have not collectively achieved the employment and investment targets outlined in their original business plans. New business start-ups are risky and not all succeed or indeed raise the necessary financing to start and once a company has had its EDGE status revoked, they no longer receive any EDGE benefits. While the EDGE companies did not achieve their projected employment and investment targets, they still created almost 1,500 jobs and generated $70 million in investment.

2.28 EDGE Program

Your conclusion that the Department is not adequately monitoring program activity is based on the following four issues:

- *No established program targets - the Department has been reviewing this issue for the past year for all its programs and will be establishing targets for EDGE for 2005.*

- *Management system used to record information is not being updated - The Department acknowledges that there has been some technical issues with its computerized system and are looking at ways to address the issue. Having said this, all the information is available either through the computer system or manually.*

- *EDGE corporations are not always filing activity reports and the Department is not always following up. -The Department always follow-ups with the companies in this regard but not always in writing. The Department will ensure written follow-up occurs in the future.*

- *The Department does not receive all the information on incentives -The Auditor General is essentially talking about incentives provided by participating municipalities - the Department will immediately begin to collect the information.*

With respect to the time frame to review applications, Government is aware of this issue with respect to timing and are looking at ways to speed up the process.

The Report states that certain incentives provided to EDGE companies were not adequately supported and were calculated incorrectly. Essentially you are talking about the start-up jobs grant of $2,000 for each new job created over 5 years. This was one of the initial incentives when EDGE was first established but was discontinued in 1997. You have raised potential issues with three companies that received the grant:

- *One EDGE company was paid for 1.73 employees for 1 job. The Department used person years (i.e. 1,820 hours equals 1 person year) instead of actual number of employees. Person years is a standard form used in many similar situations. The Department is reviewing this particular file given your comments.*

- *One EDGE company may have received the grant for international employees whose positions were ineligible. The Department's payment was based on an independent auditor's verification and your report is now questioning the accuracy of this verification. In light of this, the Department is reviewing this individual file.*

- *One EDGE company did not provide a listing of twelve salaried employees in 1998 which accounted for 499 hours of employment - the department is reviewing this particular file.*

The Department is aware that the EDGE Act requires the Minister of Innovation, Trade and Rural Development to give notice in the House of Assembly within fifteen days after signing of an EDGE contract. Since the new administration took office in November, 2003 until the closing of the House in the Spring of 2004, no new EDGE contracts were signed. Since then, EDGE contracts have been signed and a listing of all current EDGE companies was tabled in the House on December 13, 2004.

Your report states that one EDGE company did not meet the criteria - specifically it had started operations prior to the EDGE Board recommending approval and therefore did not meet the EDGE criteria of EDGE induced (i.e. activity would not take place without EDGE). The Department refers to application date when determining whether a company meets this criterium. In this particular case, the company submitted an EDGE application to Government prior to the start of operations; however, it was not submitted to the officials responsible for the EDGE program. Those officials received the application after the company commenced operation. Information on the receipt of the application was presented to the EDGE Board and government for their consideration and it was decided to consider the date it was initially submitted to Government as the application date, which was prior to the commenced date of operation.

With respect to the annual reports of EDGE companies not always being submitted on time , the Department always follows-up on late annual reports but not always in writing. The Department will now follow-up in writing. EDGE companies are not entitled to receive benefits until their annual reports are filed. In addition, EDGE companies are currently required to file an annual report with EDGE within 90 days of their fiscal year end; however, they have 180 days after their fiscal year end to file their financial statements for income tax purposes. Consequently, many companies advise they are unable to meet the EDGE time lines. The Department is currently reviewing this matter.

2.28 EDGE Program

Your report indicated that in one instance, an EDGE company had not submitted any annual reports but has continued to receive benefits such as payroll forgiveness. The Department, as you are aware, has written several notices to the company and are actively trying to address this matter.

Your report states that the Department did not request payroll records or perform site visits to confirm employment levels as part of its verification of employment hours for incentive grants ($2,000 per job), but instead relied on statements by the company's auditor.

The verification process required EDGE companies to have their independent auditors provide an audited statement verifying the payroll levels related to EDGE activity. The independent auditor had to sign the statement verifying the information's accuracy.

To conclude, it should be noted that government is currently going through a program renewal process which is examining all government programs and services to determine their effectiveness, including those programs offered by the Department of Innovation, Trade and Rural Development. As well, the Department notes the Auditor General's comments with respect to monitoring and will be reviewing our procedures in light of these comments.

2.28 EDGE Program