Department of Innovation, Trade and Rural Development

3.2.10 Enterprise Newfoundland and Labrador Portfolio Review (2002 Annual Report, Part 2.17)

Introduction

In 2002, we performed a review of two investments by the former Enterprise Newfoundland and Labrador Corporation, now the Business Investment Corporation. The objective of this review was to assess the approval process, the loan security, the monitoring activities and the current status of the Province's investment in each of the two investments selected.

We concluded that additional loans were provided to each company after the companies failed to comply with repayment terms of previous loans, financial information required under the loan agreement was not obtained from the companies, insurance on secured assets as required under the loan agreement was not carried by one company, and although the companies did not comply with the terms of the loan agreements, actions were not taken by the Department to recover its investment through claims against secured assets.

Update

In October 2004, we contacted the Department of Innovation, Trade and Rural Development requesting an update as to progress on the comments included in our 2002 report. The information provided by the Department in response to our request is outlined below.

Company A

The Department indicated that although the company was only operating at an operational breakeven basis without sufficient funds to retire Government's long-term debt, the Department remained lenient because direct employment continued for 40 to 50 mill workers and further indirect employment for 60 to 80 loggers in this high unemployment area. Direct employment continued until June 2003 when all company assets, with the exception of the planer mill, were destroyed by fire without any fire insurance in place.

The Department, as well as other funding partners, was aware that the company had not been in the financial position to maintain the cost of insurance since 1995. In 1995, the cost of insurance was approximately $100,000 and had approximately doubled by 1998, which was far beyond the means of the company and would have had to be paid by the Department. Recognizing that the cost of insurance would have

prevented the company from meeting other current operating expenses causing the likely failure of the company and the loss of significant employment; and that the insurance, if paid by Government since 1995, would likely have cost in excess of $1 million, thus increasing Government's exposure, insurance was not placed. In addition, two insurance brokers refused to place insurance during 2001 because of the age of the facility and proximity of a large sawdust pile.

The Department also indicated that since the fire; company management has been attempting to rebuild the facility and has advised that the majority of the required funding is in place without a requirement for additional assistance from the Province. Government has agreed to release the land and planer mill, which has limited value due to its advanced age, over which its security charge remains, but only if the company rebuilds a similar facility which will once again create the much needed employment in the area. Close follow-up is continuing.

Company B

The Department indicated the company continues to operate, employing approximately 20 people. The Department has copies of the most recent financial statements as of 31 March 2003 and the company officials advised that 2004 financial statements would be available shortly. Redemption of the Department's shares have been made as scheduled since 2001 by way of a portion of the lease payments from the Department of Transportation and Works' 10-year lease for a portion of the company's facilities in Gander.

Department of Justice

3.2.11 Community Corrections (2001 Annual Report, Part 3.23)

Introduction

In 2001, we performed a review of the Community Corrections Branch of the Adult Corrections Division of the Department of Justice. The objectives of our review were:

- to identify and evaluate the policies and procedures in place to manage the operations of community correctional services in the Province;
- to determine the costs incurred in operating community correctional services in the Province;