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## Update on Prior Years' Report Items

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Finally, the Corporation indicated that in the fall of 2005 it was asked by the federal government (CMHC) to prepare a list of priority projects which may qualify for funding from a potential federal government budget surplus. The \$12.3 million list prepared by the Corporation focuses on projects that would address priority needs indicated by current demographics, such as seniors, persons with disabilities and/or requiring supportive services.

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### Department of Innovation, Trade and Rural Development

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#### 3.2.19 Strategic Enterprise Development Fund (2003 Annual Report, Part 2.27)

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##### Introduction

In our 2003 report, we provided an update on an equity investment in CHC Composites Inc. that was part of a 1999 report on the Strategic Enterprise Development Fund. When we first reviewed this transaction in 1999, we found that:

- Although the former Department of Development and Rural Renewal, through Enterprise Newfoundland and Labrador Corporation, was responsible for the disbursement of the funds, it had very little to do with the assessment, approval and monitoring of the project. Instead, the Department of Finance was responsible for monitoring of this investment.
  - It was evident from our review that the project was pre-approved before the Board of Enterprise Newfoundland and Labrador Corporation or either of the departments became involved.
  - The approval of this investment was not subject to the policies and procedures established for other equity investments. Thorough assessments were not performed, verification of business plan assertions was limited, and monitoring was inadequate.
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### Conclusions from our 2003 review

As a result of our review, we concluded the following:

- Although the original agreement with CHC Composites Inc. had a number of provisions which allowed Government to inspect the company's accounting records, and appoint a member to the Board of Directors, Government did neither.
  - An additional equity investment of \$1.0 million was made to offset the company's operating losses after the Department of Industry, Trade and Rural Development failed to comply with Cabinet's direction to collect a \$150,000 personal guarantee relating to the initial \$9.5 million equity investment.
  - The former Department of Industry, Trade and Rural Development contravened the *Financial Administration Act* when it provided the \$1.0 million to the company, in that the expenditure was recorded in 2002-03 as a payment "in trust" relating to an expenditure that was actually made in the 2003-04 fiscal year.
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### Update

In November 2005, we contacted the Departments of Finance and Innovation, Trade and Rural Development requesting an update as to progress made towards the comments included in our 2003 report, including an update on the status of the collection of the outstanding personal guarantee and information on any additional funds provided to the company. The information provided by the Departments in response to our request is outlined below.

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### Department of Finance

#### 2003 Response

In response to our 2003 report item, the Department of Finance indicated that it had the option but that it had not been necessary to undertake its own review of the company's accounting records or appoint a Director to the company's Board.

#### Action Taken

The Department indicated that it has still not felt it necessary to either appoint a Director or inspect the accounting records.

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The Department is receiving:

- the company's audited financial statements, which contain unqualified audit opinions; and
- the auditor's annual calculation of employment, for purposes of preference share redemptions.

The Department maintains that this information is sufficient to enable it to monitor Government's investment in the company.

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**Department of  
Innovation,  
Trade and  
Rural  
Development**

### **2003 Response**

In response to our 2003 report item, the then Department of Industry, Trade and Rural Development indicated that they were continuing with efforts to collect on the outstanding personal guarantee, and that they did not feel that the investment and expenditure of funds contravened the *Financial Administration Act* or the Transfer of Funds Policy.

### **Action Taken**

The Department of Innovation, Trade and Rural Development indicated that it collected the full amount outstanding on the personal guarantee in December 2003.

As well, the Department indicated that its position remains that the investment of \$1 million into the company by virtue of redeemable preference shares and the manner in which the transaction was processed, did not contravene the *Financial Administration Act*, or the Transfer of Funds Policy implemented and administered by Treasury Board.

The Department did not indicate whether it had provided any additional funds to the company.

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