

however, officials indicated that additional costs associated with the implementation of the system and the final date of completion had not been determined.

As at November 2003, the estimated additional annual cost to operate the new system would be \$1.15 million. When the project was initially approved, it was estimated that the additional annual costs to operate the system would be \$700,000. This represents an annual increase in operating costs of \$450,000 or 64% over the original estimate.

The Department contravened the *Public Tender Act* when it purchased software licences costing approximately \$105,000 without calling a public tender. The Department also contravened the *Public Tender Act* by not informing the Minister of Government Services of the exception. Therefore, the House of Assembly was not informed of this exception.

Government announced a departmental reorganization in February 2004; however, Departmental officials indicated that there would be no delays in system implementation resulting from this reorganization.

2.28 EDGE Program

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 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.

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.