We found that inspectors do not always perform verification of information provided by operators during the inspection process. Furthermore, when inspections are performed, there is no required supervisory review of inspection reports.

Since the departure, in October 2004, of the two inspection officers who perform inspections of used oil facilities, there have been no inspections of used oil facilities from October 2004 to March 2005, when we completed our review.

Issues not followed up

Issues identified during inspections are not always followed up. None of the Government Service Centres have a system which could be used to record issues identified during inspections and which could then be used for subsequent tracking.

Enforcement inadequate

Although the *Storage and Handling of Gasoline and Related Products Regulations, 2003* require that abandoned petroleum storage tanks (in disuse for more than 12 consecutive months or if declared to be abandoned by either the owner or the Minister) be removed and the area restored, the Government Service Centres have not been diligent in enforcing the removal of such abandoned tanks. Of 20 inspection files that we examined, none of the 24 abandoned tanks at 4 locations had been removed.

Although the *Environmental Protection Act* provides enforcement provisions, such as stop work orders, for facilities which have not registered petroleum storage systems as required, the Department of Environment and Conservation has not taken any such enforcement action.

2.7 Investment in Icewater Seafoods Inc.

In 2004, the Province agreed to provide $3.5 million in financial assistance to Icewater Seafoods Inc. relating to the fish plant in Arnold's Cove. In return, the Province, through the Newfoundland and Labrador Industrial Development Corporation (NIDC), would receive 35,000 Preference II shares of the company. As part of this transaction, the Province, again through NIDC, received a groundfish quota from High Liner Foods Incorporated comprised of allocations for 9 groundfish species totaling 3,676 metric tonnes for 2004-05. In addition, the company agreed to pay NIDC a minimum annual lease fee of $50,000 relating to this quota.

Contrary to its policy of not providing loan guarantees and direct financial assistance to primary fish processing companies, Government effectively provided $3.5 million in financial assistance to Icewater Seafoods Inc. relating to the operation of the Arnold's Cove fish plant.

Contrary to Cabinet direction which stated that all carrying costs be recovered, Icewater is required to pay a minimum annual lease payment of $50,000 and will only approach the total carrying costs (estimated at approximately $200,000 annually) if the defined annual cash flow of Icewater reaches $2.5 million.

Government contravened the *Financial Administration Act* when, in 2004, it pre-committed $1.75 million in the Department of Finance for the 2005-06 fiscal year. In this instance, the pre-commitment related to an advance to a Crown agency (NIDC) to enable the agency to meet its funding requirements under a Subscription Agreement related to its investment in Icewater Seafoods Inc. The Department was not a signatory to the Subscription Agreement and the pre-commitment of funds to NIDC did not provide for goods or services to be provided to the Department. Therefore, the pre-commitment would not meet the requirement in the *Financial Administration Act* for *"...an agreement to be entered into for the purchase of goods or services to be delivered in a subsequent fiscal year."*

Government used a Crown corporation (NIDC) to provide the financial assistance in order to address concerns raised by the Federal Government relating to a provincial government holding a groundfish quota. Officials indicated that normally the financial assistance would have been provided through a Government department.

Without the required prior knowledge and approval of NIDC, Icewater Seafoods Inc. transferred a quota for 300 metric tonnes of halibut to a Newfoundland and Labrador based company.

Furthermore, contrary to Government's stated position NIDC gave the company approval to transfer another quota for 72 metric tonnes of halibut to Nova Scotia. Therefore, the primary processing was not performed in this Province.

2.8 Labrador Transportation Initiative Fund

In March 1997, the Government of Canada and the Government of Newfoundland and Labrador entered into an agreement where the Province would assume responsibility for operating marine freight and passenger services on and to the coast of Labrador in exchange for $340 million plus interest.

The Province received $347.6 million in December 1997 as a cash settlement, together with related ferry service infrastructure. On 19 December 1997, the Province transferred $349.2 million, representing the $347.6 million plus accrued interest of $1.6 million, to the Labrador Transportation Initiative Fund (the Fund).

Although the Federal funding was provided to operate the Labrador ferry service in perpetuity, the Province decided that it could operate the ferries in perpetuity and also fund a portion of a Trans Labrador Highway. The concept was that a highway would reduce the use of the ferries and the resulting reductions in operating costs would be such that the Fund would be sufficient in perpetuity.

The Fund, after only 9 years, is expected to be depleted in 2007 and as such will not be sufficient to operate the Labrador ferry service in perpetuity because:

- $238 million has been spent and an additional $24.6 million is expected to be spent on the construction of Labrador highways. Therefore, approximately 63% of the Fund and earned interest will be used for highway related construction.