

# Audit of Incentive for Zero Emission Vehicles Program

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From: Transport Canada

Internal audit report outlining results of the assessment of the Incentive for Zero Emission Vehicles Program at Transport Canada.

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## Executive Summary

### Introduction

Transport Canada's (TC) Incentive for Zero Emission Vehicles (iZEV) Program, launched on May 1, 2019, helps to reduce the upfront cost associated with purchasing / leasing eligible new zero emission vehicles (ZEVs) by providing incentives to Canadians. This funding will help to support meeting the Government's announced mandatory ZEV sales target of 100% by 2035.

## Objective and scope

The objective of this audit was to assess the processes in place to manage the risks to successful implementation and delivery of the iZEV Program.

## Background

The following groups are responsible for the iZEV Program:

- The Transfer Payment Programs Branch delivers the iZEV Program by verifying incentive requests for completeness and accuracy, determining eligibility, approving payments (sections 32 and 34 of the Financial Administration Act (FAA)), maintaining effective relationships with dealerships, and preparing performance and financial reports for senior management.
- Environmental Policy develops the iZEV Program Treasury Board Submissions, including the performance measurement framework and risk assessments, and approves the addition of vehicles to TC's List of Eligible ZEVs, ensuring they meet the Program's Terms and Conditions.
- Accounting Services enrolls dealerships in the iZEV Program once they register in the iZEV online portal, and issues the incentive payments (section 33 of the FAA).
- The Digital Services Directorate developed the iZEV online portal and is responsible for ongoing maintenance and improvements.

## Overall conclusion

Overall, our audit found that the processes are sound and effectively manage the risks to successful implementation and delivery of the iZEV Program. The Program was internally designed and delivered efficiently and effectively within a very tight timeframe. It has been well managed, and controls have been proactively and continuously strengthened through

on-going improvements. For example, our extensive testing confirmed that the robust eligibility verification and Quality Control (QC) processes, as well as the additional controls in the iZEV portal are successfully working to reduce any potential errors. Furthermore, an innovative approach was taken in implementing Robotic Process Automation (RPA) to process the incentive payment approvals.

We have identified only one opportunity to strengthen the program. Although there is detailed iZEV Program guidance available for carrying out the processes, two specific documents require updating to help maintain the effective processes and practices in place. We have made a recommendation to address this finding and management has developed an action plan to implement it.

## **Statement of conformance**

This Audit conforms with the Government of Canada's Policy on Internal Audit and the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, as supported by the results of an external assessment of Internal Audit's Quality Assurance and Improvement Program.

Chantal Roy, CIA

Chief Audit and Evaluation Executive

# **1.0 Introduction**

## **1.1 Purpose**

The Government of Canada's Transportation 2030 Strategic Plan includes a commitment for the Minister of Transport to advance toward a target of zero emission vehicles (ZEVs) making up 100 percent of light-duty vehicle

sales by 2035. The Zero Emission Vehicles (iZEV) Program plays a significant role in Transport Canada's (TC) objectives of promoting a green and innovative transportation system, which is why the 2020-2021 Risk-Based Audit and Evaluation Plan included an audit of the program.

## 1.2 Background

Transportation is the second largest source of greenhouse gas (GHG) emissions in Canada. It accounts for a quarter of Canada's total GHG emissions, with almost half of it originating from cars and light trucks. One way to reduce the amount of transportation related GHG emissions is to deploy more ZEVs on the road as they have the potential to produce no tailpipe emissions. TC announced the iZEV Program in March 2019 and the department worked diligently to roll out the Program on May 1, 2019.

Purchases and leases of new ZEVs are eligible for an incentive based on the manufacturer's suggested retail price (MSRP), make and model.<sup>1</sup> Battery-electric, hydrogen fuel cell, and longer-range plug-in hybrid vehicles are eligible for an incentive of \$5,000. Shorter range plug-in hybrid electric vehicles are eligible for an incentive of \$2,500.

The ZEV incentive is applied at the point-of-sale directly on the consumer's invoice or lease agreement. Dealerships are responsible for completing and submitting the required documentation to receive the incentive reimbursement.

There is a limit on the number of ZEV incentives that Canadians are eligible to receive under the Program. Individuals are entitled to one incentive in a calendar year while businesses and provincial and municipal government operating fleets may receive one incentive per vehicle, up to 10 vehicles in a calendar year.

Despite the pandemic, the uptake of the iZEV Program was higher than expected and funding was an ongoing concern. The Program exhausted its original funding of \$300 million and received two subsequent funding top-ups of \$287 million and \$172 million to continue the Program until March 31, 2022 as planned. Recently, Budget 2022 included an additional \$1.6 billion to extend the iZEV Program to March 31, 2025. Program parameters were also modified to increase the number of makes and models of eligible new ZEVs.

As of February 28, 2022, out of a total of 142,232 submitted incentive requests, the overwhelming majority has been accepted (136,940 or 96%). Of these, 134,406 (98%) have been processed for reimbursement to dealerships in the amount of \$578,324,062.<sup>2</sup>

#### TC Groups Responsible for the iZEV Program:

The Transfer Payment Programs Branch delivers the iZEV Program by receiving incentive requests and verifying them for completeness and accuracy, determining eligibility, approving payments (sections 32 and 34 of the Financial Administration Act (FAA)), maintaining effective relationships with dealerships, and preparing performance and financial reports for senior management. The Director, Transfer Payment Programs, reports to the Director General (DG), Indigenous Relations and Navigation Protection, who reports to the Assistant Deputy Minister (ADM), Programs, who in turn reports to the Deputy Minister (DM).

Environmental Policy develops iZEV Program Treasury Board Submissions and approves the addition of vehicles to TC's List of Eligible ZEVs, ensuring they meet the Program's Terms and Conditions.

Accounting Services enrolls dealerships with the iZEV Program once a dealership creates an account and completes the registration in the iZEV online portal. They also issue the incentive payments (section 33 of the FAA).

The Digital Services Directorate developed the iZEV online portal and is responsible for ongoing maintenance and improvements to the system.

The Centre of Expertise (COE) on Transfer Payments assists in designing and delivering transfer payment programs, ensuring they align with the Treasury Board Policy on Transfer Payments. It also plays a support role by providing guidance when required.

## **1.3 Review objective, scope, criteria and approach**

### **Objective and scope**

The objective of this audit was to assess the processes in place to manage the risks to successful implementation and delivery of the iZEV Program. The scope of the audit was the entire iZEV Program.

### **Criteria**

In 2013, Audit and Advisory Services developed and documented Generic Audit Criteria for Grant and Contribution Programs to provide a comprehensive set of audit criteria to consistently assess grant or contribution programs.<sup>3</sup>

We have used the generic audit criteria to assess the iZEV Program's elements of Design, Implementation, Monitoring, and Performance Reporting. Specifically, we expected that:

- the Program aligns with TC's mandate and priorities and is designed to address an identified need of a targeted class or category of recipients

or beneficiaries

- program outcomes and performance measures have been defined by Environmental Policy, and risks to the achievement of program objectives are assessed and addressed
- program costs reliably account for not only recipient funding but also the operational requirements and resources and competencies necessary to effectively deliver the program and achieve its objectives
- the Program has appropriate processes, procedures, systems, resources, and roles and responsibilities to help ensure it is delivered consistently within approved Terms and Conditions
- incentive requests are assessed for eligibility using established criteria based on the Program's Terms and Conditions
- communications, both external and internal to the department, are in both official languages.
- there is sufficient monitoring to promote the achievement of program objectives according to Terms and Conditions, identified issues are addressed, and payments are made only upon fulfilment of requirements
- program results are accurately reported to departmental senior management and Parliament, and opportunities for improvement, either at the program level or departmentally, are identified and actioned

## Approach

Our approach included interviews, <sup>4</sup> document reviews, walk-throughs of the iZEV system and processes, and data analysis to assess the iZEV Program against the audit criteria.

We reviewed the recent TC Financial Management and Quality Control's (FMQC) Transfer Payments (Grants & Contributions) On-going Monitoring Testing Report and found no observations relating to the iZEV Program's processes or financial controls.

We leveraged our Evaluation colleagues' expertise to review the Program's performance measurement framework. They indicated that it appropriately outlines the results chain and defines performance indicators. An evaluation of the iZEV Program is tentatively planned for 2024-2025.

## **1.4 Report Structure**

The report summarizes the audit findings under the categories of Design, Implementation, Monitoring, and Performance Reporting. Each section describes what we expected, what we found, and, where appropriate, recommendations.

The last section lists audit recommendations and management's action plan.

# **2. Findings and recommendations**

## **2.1 Program Design**

### **Internal Audit Expected**

- The Program aligns with TC's mandate and priorities and is designed to address an identified need of a targeted class or category of recipients or beneficiaries.
- Program outcomes and performance measures have been defined by Environmental Policy, and risks to the achievement of program objectives are assessed and addressed.



- Program costs reliably account for not only recipient funding but also the operational requirements and resources and competencies necessary to effectively deliver the program and achieve its objectives.

## Internal Audit's Assessment

The iZEV Program objectives are clearly aligned with the departmental mandate and priorities to promote green and innovative transportation systems and specifically, to reduce harmful air emissions from transportation in Canada. The program also contributes to the Pan-Canadian Framework on Clean Growth and Climate Change (PCF) and Canada's international commitments such as the 2016 Paris Agreement.

The iZEV Program supports the adoption of zero emission vehicles (ZEV) by providing incentives for the purchase / lease of affordable ZEVs. As such, the Program set manufacturer's suggested retail price (MSRP) maximums to ensure that only ZEVs priced under these caps are eligible for incentives.

Detailed iZEV Program performance measurement and risk assessment frameworks were developed by Environmental Policy and were updated annually as part of the process to request Program top-up funding. The performance measurement framework clearly defines desired immediate, intermediate and ultimate Program outcomes with measurable indicators and attainable targets. While Program risks were initially assessed as medium-high, the mitigation strategies that were implemented as the Program progressed resulted in a low residual risk. The Program's main risk is not having sufficient funding to meet the demand for purchase / lease incentive requests.

Senior management decided to deliver the iZEV Program internally, avoiding additional third-party service costs. Detailed analysis was conducted to support and select the most effective delivery option. Cost

estimates were based on sound analysis and reliably account for recipient funding, operational requirements, and resources necessary to effectively deliver the program and achieve its objectives. For example, cost estimates for recipient funding were based on previous program management experience, consultation with industry and ZEV market information. Sufficient and appropriate resources were allocated to deliver the Program and senior management provided funding for additional resources when required.

## **2.2 Program Implementation**

### **Internal Audit Expected**

- The Program has appropriate processes, procedures, systems, and resources, and roles and responsibilities to help ensure it is delivered consistently within approved Terms and Conditions.
- Incentive requests are assessed for eligibility using established criteria based on the program's Terms and Conditions.
- Communications, both external and internal to the department, are in both official languages.

### **Internal Audit's Assessment**

#### **Human Resources**

Due to the tight implementation deadline, a comprehensive human resources plan was not developed for the iZEV Program, but thorough analysis was conducted to determine the number of employees required based on the volume of expected applications. The majority of the resources were allocated to the Transfer Payment Programs Branch,

responsible for delivering the Program. In-person training, on-going coaching and guidance, and a Quality Control (QC) process (see section 2.3) assists in the effective delivery of the Program.

### **Incentive Request Verification Process**

The Digital Services Directorate developed the iZEV online portal to manage the entire iZEV Program incentive process.

Dealerships use the iZEV portal to enroll in the Program, register for direct deposit, and request and receive incentive payments by submitting required documentation online (invoice or lease agreement, Consumer Consent Form, Incentive Received Form). The TC website and the Applicant Guide for the iZEV Program provides dealerships with information and guidance.

The iZEV Program delivery team uses the iZEV portal to carry out the incentive request verification process and track the status. The OPI Training Manual provides detailed step-by-step instructions, including criteria and eligibility requirements to assist in determining incentive eligibility. The support team verifies the submitted documents for completeness, accuracy and eligibility based on a set of established criteria (e.g., new/demo, mileage). They validate the vehicle against the eligibility list, that is kept current as new vehicles are added, and they validate the vehicle identification number (VIN) against the Canadian Council Motor Transport Administration (CCMTA) database. They also validate the requested incentive amount for accuracy based on the program's specifications. During this verification process, the support team requests missing information or clarification from the dealerships, rejects ineligible requests and informs the dealerships. <sup>5</sup>

Following this initial verification, a Program Support Officer performs a secondary eligibility verification by creating an Excel log spreadsheet through Business Intelligence (BI) Launchpad,<sup>6</sup> that displays the data of batches of verified incentive requests from the iZEV portal.<sup>7</sup> The Officer uses filters to verify the data and sends any incentive requests with missing information or errors back to the support team for further review and / or corrective action.

The draft iZEV – Creating Logs procedure provides guidance, but the document has not been finalized. There are a number of proposed revisions that need to be approved to finalize the document. The iZEV Program Management Detailed Process that provides overall Program procedures, as well as roles and responsibilities, also requires updating to include specific instructions for processes that have changed such as the Robotic Process Automation (RPA) now being used for incentive payment approval.

Once verified, the log is sent to a different Program Support Officer to undergo a QC process that further mitigates the risks of reimbursing ineligible recipients (see section 2.3). Upon completion, the log and QC results are emailed to the Program Manager for final verification. The Manager repeats the same filtering process on the log using the same criteria and verifies the QC results.<sup>8</sup>

Since the launch of the Program, the Digital Services Directorate, in close collaboration with the iZEV Program delivery team, has implemented additional automated verification controls in the iZEV portal to assist in the prevention of errors and help ensure compliance with Terms and Conditions.

The audit team conducted extensive testing to validate that the eligibility requirement controls are working as intended. Given the availability of the data, it was more efficient and effective to take a census (100%) testing approach. We assessed the complete iZEV database that included 117,291 incentive requests issued between May 15, 2019 and December 14, 2021.<sup>9</sup>

The results found that the controls are effective and working as intended. Out of the 12 eligibility requirements tested, 5 had no instances of non-compliant transactions.<sup>10</sup> The number of non-compliant transactions for each of the 7 remaining eligibility requirements was very low, most of which occurred at the beginning of the iZEV Program.

## **Recommendation**

To help maintain the effective processes and practices already in place, the ADM, Programs should ensure the iZEV Program updates these specific guidance documents:

- a. iZEV Program Management Detailed Process
- b. iZEV - Creating Logs

## **Incentive Request Approval and Payment**

The iZEV Program sends the log, approval signature sheet and any QC result comments by email to the DG, Indigenous Relations and Navigation Protection and the Director, Transfer Payment Programs for FAA section 32 and section 34 digital signature approvals. We tested a sample of 20 logs to confirm that both signatures were provided and found 100% compliance.<sup>11</sup>

Robotic Process Automation (RPA) was implemented in March 2021 to automate the incentive payment approval process (FAA section 33). The iZEV Program sends a log with a maximum of 21 signed incentive requests by email to the RPA. The RPA validates the digital signatures against a database of specimen signature cards and acting memos,<sup>12</sup> and then

performs a further eligibility verification of the incentive requests using the same criteria as the iZEV Program delivery group.<sup>13</sup> If the RPA detects any errors, it rejects the incentive request and an Accounting Services staff member investigates.<sup>14</sup> The RPA enters the payment information for the approved incentive requests in the Oracle Financial System that automatically makes direct deposit payments to the dealerships. The RPA updates the incentive request status in the iZEV portal to notify the iZEV Program and the dealership of the payment. According to Accounting Services, the RPA is very effective at processing payments in a timely manner and reducing the potential for error.

### **Exemption Process**

The iZEV Program developed a process to approve exemptions to its Terms and Conditions for the following situations when justified:

- Second incentive requests per calendar year per individual
- High mileage demonstrator vehicles
- Accepting Tesla's own incentive template form (one-time occurrence in 2019)
- Consent and/or Incentive form issues (e.g., incorrect form, missing information)
- Vehicles sold prior to eligibility
- Third-party lease issues

An Exemption Note template was consistently used. The note describes the type of decision to be taken, the specific issue, considerations, and the recommendation. The note may cover one individual case or several related cases, and must be approved by both the Director, Transfer Payment Programs and the DG, Indigenous Relations and Navigation Protection.

We conducted testing to determine if the approved exemptions complied with the process. Given the low number of exemptions and that several exemption cases could be bundled under one Exemption Note, we verified 100% of the 556 completed exemptions as of March 2022. The results were very positive as we found 548 (98.5%) completed and signed Exemption Notes.

The iZEV Program has recently implemented a new approach to accept second incentive requests and high mileage demos without the use of Exemption Notes. Program management believes this is an acceptable risk management approach given the low number of cases. The Program will continue to regularly monitor these cases and report results annually. Furthermore, there are additional controls in place to help prevent non-compliance.

### **Official Languages**

The iZEV Program complies with the Official Languages Act (OLA). External requirements are met through the bilingual website and on-going bilingual communications with the public. Similarly, internal requirements are met as training and documented procedures are provided in both official languages, and interviews with staff confirmed that communication with colleagues and managers are in the language of their choice.

## **2.3 Program Monitoring**

### **Internal Audit Expected**

- There is sufficient monitoring to promote the achievement of program objectives according to Terms and Conditions, identified issues are addressed, and payments are made only upon fulfilment of requirements.

## **Internal Audit's Assessment**

### **Program Performance and Financial Monitoring**

The iZEV dashboard provides monthly performance results to senior management, such as the number and value of incentive requests received and processed to date, as well as ZEV sales and market share trends. An iZEV dashboard one-pager is provided to the ADM, Programs, that includes the most recent program outcomes, indicators and results to date. The iZEV Program also reports on its service standards.

Using financial reporting functionality in the iZEV portal, the Program monitors on-going incentive request expenditures and the remaining budget. Each month, the DG, Indigenous Relations and Navigation Protection, receives a Financial Summary report as well as the Burn Rate one-pager report that provides the monthly actual expenditures, remaining funding and forecasted expenditures. The iZEV Program also completes a quarterly Proactive Disclosure Report that provides the public with program statistics including total expenditures.

### **Program Compliance and Monitoring**

The iZEV Program implemented a robust QC process to monitor compliance to program policies and procedures. Following the iZEV Log Sampling Instructions, a Program Support Officer performs an additional eligibility verification on the log, using the same filters and criteria as discussed in section 2.2. Five percent of the log's incentive request transactions are targeted to verify specific eligibility requirements. Each incentive transaction is thoroughly reviewed by repeating the initial verification process conducted by the support team. Details of the verification, including changes and observations are documented in a Sampling Sheet template. As discussed in section 2.2, the QC results are reviewed by the Program Manager.



## 2.4 Program Performance Reporting and Policy Analysis Context

### Internal Audit Expected

- Program results are accurately reported to departmental senior management and Parliament, and opportunities for improvement, either at the program level or departmentally, are identified and actioned.

### Internal Audit's Assessment

In addition to the iZEV Program performance and financial reports regularly provided to senior management (see section 2.3), performance results are also included in several departmental reports such as the Departmental Plan and Departmental Results Report and in several government reports such as the Federal Sustainable Development Strategy Progress Report.

Financial results are also included and tracked as part of regular departmental financial reporting such as the Resource Utilization Status Highlights (Rush) Directorate Workbook. iZEV Program management and the Financial Management Advisor (FMA) responsible for the iZEV Program discuss financial results at monthly meetings.

We found that the iZEV Program steadily evolved over the initial three years of its operation, incorporating improvements into its processes (e.g., exemptions) and system (e.g., additional automated controls).

## 3.0 Conclusion

Overall, our audit found that the processes are sound and effectively manage the risks to successful implementation and delivery of the iZEV Program. The Program was internally designed and delivered efficiently

and effectively within a very tight timeframe. It has been well managed, and controls have been proactively and continuously strengthened through on-going improvements. For example, our extensive testing confirmed that the robust eligibility verification and QC processes, as well as the additional controls in the iZEV portal are successfully working to reduce any potential errors. Furthermore, an innovative approach was taken in implementing RPA to process the incentive payment approvals.

We have identified only one opportunity to strengthen the program. Although there is detailed iZEV Program guidance available for carrying out the processes, two specific documents require updating to help maintain the effective processes and practices in place.

## **4. Recommendations and Management action plan**

The following summarizes the audit recommendations and management's plan to address them.

	<b>Recommendation</b>	<b>Management Action Plan</b>	<b>Completion Date</b>
1.	<p>To help maintain the effective processes and practices already in place, the ADM, Programs should ensure the iZEV Program updates these specific guidance documents:</p> <ul style="list-style-type: none"> <li>a. iZEV Program Management Detailed Process</li> <li>b. iZEV - Creating Logs.</li> </ul>	<p>Management agrees with the recommendations and will update the guidance materials based on the feedback provided in the report.</p> <p>The iZEV program will update the two guidance documents identified in the iZEV Audit Recommendation and as new processes/requirements are introduced, the documents will be updated (evergreen documents).</p> <p>The frequency of document updates will be developed to ensure that new processes are added and information governance is updated on a regular basis.</p> <ul style="list-style-type: none"> <li>a. The iZEV Program Management Detailed Process proposed updates will be to include instructions on processes that have changed, to reflect current practice, such as Robotic Process Automation (RPA).</li> </ul>	Completed

	<b>Recommendation</b>	<b>Management Action Plan</b>	<b>Completion Date</b>
		b. The proposed revisions in the iZEV – Creating Logs document will be updated to document the step-by-step process for creating a new log.	

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## Footnotes

- 1 Lease incentives are prorated based on the length of the lease. For example, a 48-month lease is eligible for the full incentive amount and a 24-month lease is eligible for half of the incentive amount.
- 2 Source: February 2022 ADM iZEV dashboard one-pager
- 3 The audit criteria were based on several sources, such as the *Policy on Transfer Payments*.
- 4 iZEV Program Director, Manager, Senior Program Analyst, Program Support Officers, and Administrative Support Assistants, as well as the Program's Financial Management Advisor (FMA), and staff from Environmental Policy, Digital Services, Financial Policy and Systems, Accounting Services, and the COE.
- 5 Requests are rejected due to failure in meeting the Program's eligibility criteria or missing information.

- 6 BI Launchpad is an application that runs in a web browser and is the main interface for working with objects in the BI platform. It is used to perform analytical reporting and data analysis.
- 7 Typically, 1-3 logs are created per week, each including 300 to 700 incentive requests.
- 8 Very few incentive requests are returned for further analysis at this time.
- 9 Exported from the iZEV portal by the iZEV Program.
- 10 For example, all leases < 48 months have the correct incentive amount applied for their specific lease durations.
- 11 This represents approximately 6% of the total of 338 logs as of March 30, 2022.
- 12 If a signature fails the validation, the RPA returns the log by email to the iZEV Program.
- 13 Prior to the RPA implementation, the Accounting Services group was responsible for repeating the iZEV Program's eligibility verification process.
- 14 Only 1-3% of all incentive requests require human analysis (e.g., VIN duplication).

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