Single-Family Owner-Occupied Renovation Program Audit No. A2026-06

Issued by the
Internal Audit Department
September 11, 2026

EXECUTIVE SUMMARY

The Internal Audit Department has concluded the Single-Family Owner-Occupied Renovation Program Audit. The audit was approved as part of the Fiscal Year 2026 Annual Audit Plan. The scope for this audit was January 1, 2023 to December 31, 2025. The audit's objective was to determine whether the Single-Family Owner-Occupied Renovation Program was administered in compliance with applicable grant and program requirements. To achieve this, the audit assessed the following:

- Applicant intake and eligibility processing,
- Individual project execution,
- Project contracting and procurement,
- Financial management and closeout; and,
- Administrative oversight and reporting.

Based on the results of the audit, two findings were identified, one positive finding and one finding that highlights an area for improvement. Listed below is a summary of the findings identified in this report:

1. **Program Compliance**
   The Department of Community and Human Development has processes in place to ensure that that the Single-Family Owner-Occupied Renovation Program was administered in accordance with applicable grant and program requirements.

2. **Indebtedness Verification Process**
   An area of improvement was identified in the current indebtedness verification process. A review of a sample of six (6) Single-Family Owner-Occupied applicants approved between November 28, 2024 to May 20, 2025, identified that indebtedness verification is limited to conducting property tax searches, which are only documented when amounts are due. The process does not include verifying debt with other City departments, resulting in an incomplete eligibility review.

For a detailed explanation of the findings, please refer to the body of this Audit Report.

BACKGROUND

The purpose of the Single-Family Owner-Occupied (SFOO) Renovation program is to assist low-to-moderate income homeowners in improving the safety, sanitation, and functionality of their homes. The Department of Community and Human Development (DCHD) administers the program using funds from the U.S. Department of Housing and Urban Development's (HUD) Community Development Block Grant (CDBG) program, a federal funding source designed to help communities provide decent housing and expand economic opportunities for low- and moderate-income residents. Through this funding, DCHD develops and implements policies and procedures that meet the needs of El Paso homeowners while ensuring full compliance with federal regulations.

The SFOO Program offers four distinct types of assistance:

- **Sewer Connection**: Supports homeowners in establishing an initial connection to local sewer lines. Assistance is capped at $25,000.00 and funded through CDBG; no repayment is required.
- **Minor Repair**: Addresses conditions that pose an imminent threat to the health, safety, or welfare of the occupants (as determined by HUD). Assistance is capped at $25,000.00, funded through CDBG, and requires no repayment.
- **Rehabilitation**[1]: Provides major renovation assistance to address conditions that pose an imminent threat to the health, safety, and welfare of the occupants (as determined by HUD) ranging in cost from a minimum of $25,001.00 - $90,000.00.
- **Reconstruction**[1]: Provides assistance for addressing conditions that pose an imminent threat to the health, safety, and welfare of the occupants AND exceeds the $90,000.00 rehabilitation threshold. Maximum assistance is based on a HUD-provided formula.

The program entered its close-out phase in 2023 and is no longer accepting new applicants. An applicant refers to an individual who applied to one of the four SFOO programs; however, application alone did not guarantee approval. An applicant was certified as eligible only after meeting all of the following criteria:

- Property location, characteristics, and value requirements,
- Verified homeownership with a minimum three-year occupancy prior to applying,
- Proof of residency within El Paso city limits,
- Income and asset qualification, with no outstanding property taxes or City debt,
- Number of eligible household members residing at the address.

An applicant becomes an approved client only after a three-party agreement is executed. As of March 24, 2026, a total of 23 applicants had achieved approved client status.

SFOO projects were procured through two primary methods:

- **Competitive Procurement**: Vendors and contractors submitted bids or proposals evaluated by the City's Purchasing and Strategic Sourcing Department (PSSD) using predefined criteria such as pricing, qualifications, compliance with specifications, timeliness, quality,

[1] The Rehabilitation and Reconstruction assistance programs each require a Forgivable Deferred Payment Loan Note and a recorded Deed of Trust, which establishes a lien on the property.

regulatory adherence, and past performance. Each project was subject to a maximum of three (3) bidding rounds.

- **Job Order Contract (JOC)**: DCHD established pre-negotiated contracts with JOC contractors. When a qualifying project was identified, DCHD issued a task order to the awarded contractor for project execution.

After the application process was completed and all information verified, projects were either assigned through a JOC task order or submitted for competitive bidding by PSSD. Because PSSD plays a significant role in the execution of SFOO renovation projects, a separate review of their processes was conducted.

As a result of this review, a management letter was issued to the Purchasing Director, with a copy provided to Calyptus Consulting Group, Inc., an external consultant engaged to perform an assessment of PSSD. This letter outlines recommendations related to minor observations that, while not substantial, were important enough to bring to management's attention. These items were presented to management at the conclusion of the audit work, and management acknowledged receipt.

AUDIT OBJECTIVES

The objective of this audit was to determine whether the Single-Family Owner-Occupied Renovation Program was administered in compliance with applicable grant and program requirements. To achieve this, the audit assessed the following:

- Applicant intake and eligibility processing,
- Individual project execution,
- Project contracting and procurement,
- Financial management and closeout; and,
- Administrative oversight and reporting.

AUDIT SCOPE AND METHODOLOGY

The scope for this audit covered Calendar Years 2023 through 2025. To achieve the audit objectives, we performed the following procedures:

- Conducted interviews with Department of Community and Human Development management and staff to gain an understanding of the SFOO Renovation Program Guidelines and reporting requirements.
- Reviewed the *City of El Paso Single Family Housing Owner Occupied Renovation Program Close Out Guidelines* and *City of El Paso Community & Human Development Policies & Procedures for U.S. Department of Housing and Urban Development & Texas Department of Housing and Community Affairs Grants* effective September 01, 2025.
- Analyzed a judgmental sample, which cannot be extrapolated to the full population, of the six (6) most recently approved SFOO applicants for compliance with the *Close-Out Guidelines*, including verification that:
    - Properties met required location and characteristic criteria.
    - Property ownership and length of ownership were properly documented.

  - Documentation supported residency requirements, and property tax and City indebtedness checks were cleared.
  - Eligible household members and HUD household income limits were properly verified.
  - After-rehabilitation property values remained at or below HUD-established limits.
- Reviewed the sample of six (6) approved client files to ensure each contained:
  - Executed three-party agreements and required disclosure forms.
  - Initial assessments establishing the scope of work.
  - Evidence of final job site inspections completed prior to processing contractor payments.
- Reviewed DCHD's coordination efforts with the Purchasing and Strategic Sourcing Department related to procurement activities.
- Analyzed all eight (8) denied or disqualified SFOO applicants between January 1, 2023 to December 31, 2025 to confirm disqualification decisions aligned with the criteria outlined in the *Close-Out Guidelines*[2].
- Conducted a review of DCHD's reporting requirements for completeness and accuracy, timeliness, and proper review.

We conducted this audit in accordance with *Generally Accepted Government Auditing Standards* and the *Global Internal Audit Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[2] A separate review and confidential communication were prepared for the City Manager regarding a conflict-of-interest allegation raised by one of the disqualified applicants.

FINDING, CRITERIA, RECOMMENDATION, AND MANAGEMENT'S RESPONSE

Finding 1 (Positive Finding)

Administration of the Single-Family Owner-Occupied Renovation Program

Based on our review of the Single-Family Owner-Occupied Renovation Program (the program), we identified that the Department of Community and Human Development (DCHD) has effective processes in place to ensure the program was administered in compliance with applicable grant and program requirements. Specifically, the Department of Community and Human Development:

- Employs knowledgeable staff who are proficient in HUD requirements.
- Has established procedures documenting both internal processes and HUD requirements for administering the program.
- Ensured applicants met the requirements of the *Single Family Housing Owner Occupied Renovation Program Close-Out Guidelines* and the *DCHD Policies & Procedures for U.S. Department of Housing and Urban Development & Texas Department of Housing and Community Affairs Grants*.

  We analyzed a sample of the six (6) most recently approved SFOO applicants and their corresponding files and confirmed compliance with the guidelines noted above, including verification that:
  - Properties met required location and characteristic criteria.
  - Property ownership and length of ownership were properly documented.
  - Residency documentation was complete.
  - Eligible household members and HUD household income limits were properly verified.
  - After-rehabilitation property values were within HUD-established limits.
  - Executed three-party agreements and required disclosure forms were included.
  - Initial assessments were completed to establish the scope of work.
  - Final job site inspections were documented prior to processing contractor payments.
- Additionally, DCHD:
  - Ensured disqualifications aligned with the *SFOO Renovation Program Close Out Guidelines.* A review of all eight (8) denied or disqualified applicants from January 1, 2023 through December 31, 2025, confirmed adherence to the disqualification criteria.
  - Submits reporting requirements that are complete, accurate, timely, and properly reviewed.

Standard/Criteria

- City of El Paso Strategic Plan:
  - *Goal 6.3 Implement programs to reduce organizational risk*
  - *Goal 6.12 Maintain systems integrity, compliance and business continuity*
- *City of El Paso Single Family Housing Owner Occupied Renovation Program Close Out Guidelines*

- *City of El Paso Community & Human Development Policies Procedures for U.S. Department of Housing and Urban Development & Texas Department of Housing and Community Affairs Grants* effective September 01, 2025.

Recommendation

The Department of Community and Human Development should continue to ensure that programs offered by the department are administered in compliance with applicable grant and program requirements.

Management's Response

None Required

Finding 2

Indebtedness Verification Process

As of March 24, 2026, a total of 23 applicants had achieved approved client status. A review of a sample of six (6) Single-Family Owner-Occupied applicants approved during the period of November 28, 2024 through May 20, 2025 identified that indebtedness verification procedures were incomplete.

- Six (6) out of six applicant files (100%) lacked documentation showing that property tax checks were performed and did not contain evidence that City indebtedness verifications were conducted.

According to the Department of Community & Human Development, property tax searches are performed but only documented when amounts are due. However, the current process does not include verifying outstanding debt with other City departments, which is necessary to ensure applicants do not owe any delinquent fees, fines, or other obligations to the City.

Standard/Criteria

City of El Paso Strategic Plan:

- *Goal 6.3 Implement programs to reduce organizational risk*
- *Goal 6.12 Maintain systems integrity, compliance and business continuity*

City of El Paso Single Family Housing Owner Occupied Renovation Program Close Out Guidelines and the *City of El Paso Community & Human Development Policies & Procedures for U.S. Department of Housing and Urban Development & Texas Department of Housing and Community Affairs Grants:*

- Section Outstanding Property Tax and City Debt:

As per City ordinance 016529, individuals that have outstanding indebtedness to the City, and not on an active deferment with the tax office will be considered ineligible for this program. Proof of current good standing regarding property taxes owed to the City of El Paso is required. All delinquent property taxes or other debt to the City must be remedied prior to proceeding with an application for assistance.

City Ordinance No. 016529

… the City of El Paso desires to establish regulations, pursuant to Section 252.0436(a) of the Texas Local Government Code, whereby the City may refuse to enter into a contract or other transaction with a person indebted to the City including but not limited to an apparent low bidder or successful proposer.

Significance/Risk:

Despite existing procedures requiring verification of outstanding property taxes and City indebtedness, the absence of documented property tax checks and the incomplete indebtedness verifications for all sampled applicants introduces uncertainty regarding the completeness of eligibility screening. Without documented, consistent eligibility screening, there remains a continued

risk that applicants with outstanding debt to the City may be deemed eligible and approved for assistance in violation of the Policies & Procedures for HUD and TDHCA Grants and City Ordinance No. 016529.

Given these requirements, incomplete or undocumented eligibility screening creates the possibility that applicants who were not eligible under HUD, TDHCA, or City Ordinance No. 016529 may have nonetheless received assistance. In a worst-case scenario, if federal or state oversight were to identify such non-compliance, the City could face corrective actions ranging from repayment of disallowed costs to suspension, reduction, or withdrawal of grant funding, along with potential administrative or legal remedies depending on the severity and extent of the findings. Including consistent and documented verification practices is therefore essential to mitigate exposure to these compliance risks.

Recommendation

The Department of Community and Human Development should:

- Ensure that applicants with outstanding indebtedness to the City or who are not on an active deferment with the Tax Office, are deemed ineligible for any programs.
- Obtain and retain proof of good standing for property taxes owed to the City of El Paso, and
- Require applicants to remedy any delinquent property taxes or other City debt prior to proceeding with an application for assistance.

Management's Response

DCHD currently reviews City indebtedness as part of its eligibility process, with the results documented in the client's Credit Report. Through the audit process, it was clarified that certain City indebtedness with different Departments may not be reflected in the Credit Report and therefore requires separate verification.

Although the SFOO Program is in closeout and no longer accepting new applicants, DCHD will develop an indebtedness verification form as recommended by Internal Audit for other applicable programs. This will provide additional assurance that outstanding City indebtedness is identified and appropriately documented.

Responsible Party

DCHD Director, Assistant Director, Program Manager, Grant Project Manager, and other DCHD staff, as applicable.

Implementation Date

December 1, 2026.

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods beyond the Audit Report date are subject to the risk that procedures may become inadequate due to changes in conditions, management override of internal controls, or that the degree of compliance with the procedures may deteriorate. This was a limited scope audit which only reviewed the areas stated in the Audit Objectives during the Audit Scope period. No representations of assurance are made to other areas or periods not covered by this audit.

CONCLUSION

We have concluded our audit work on the objectives of the Single-Family Owner-Occupied Renovation (SFOO) Program Audit. The audit evidence used in the analysis is sufficient and appropriate for addressing the objectives and supporting the observations and conclusion. In accordance with *Generally Accepted Government Auditing Standards,* we are required to conclude on whether the Department of Community and Human Development (DCHD) met the objectives of this Audit. Based on our audit work, we have determined that:

1. DCHD substantially met the audit objectives in administering the SFOO Renovation Program in compliance with applicable grant and program requirements in the following areas:
   - Applicant intake and eligibility processing,
   - Individual project execution,
   - Project contracting and procurement,
   - Financial management and closeout, and
   - Administrative oversight and reporting.

   These objectives were met in the areas listed above, with the exception of the specific deficiency noted in the following section.
2. DCHD did not meet the audit objectives in ensuring that City indebtedness checks were fully performed and properly documented.

We wish to thank the Department of Community and Human Development's management and staff for their assistance and courtesies extended during the completion of this Audit.

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