



LEGISLATOR'S GUIDE TO THE ISSUES 2021-2022

City & County Efficiency Audits

The Issue

Waste, fraud, and abuse are a common occurrence at the local level, especially among large, urban governments. The misappropriation of local tax dollars is forcing tax bills higher and causing government to grow.

In the interest of preserving the Texas Model, it is prudent for state lawmakers to assist cities and counties with restoring fiscal responsibility to local public finance. One way to encourage greater prudence is by requiring large cities and counties to perform third-party efficiency audits.

An efficiency audit is a comprehensive examination of a governmental entity's budget and operations conducted for the purpose of identifying ways to reduce expenditures and better use resources. These audits provide decision-makers with ideas on how to improve the efficiency and effectiveness of existing programs and services. When made publicly available, the information in these reports also arm community stakeholders with the suggestions needed to hold their elected officials accountable and inform policy discussions.

The concept is highly regarded by policymakers and practitioners alike. In fact, [two former Austin city councilmembers said](#) that "efficiency audits are a national best practice. Governmental entities including Travis County, City of Seattle, the states of Rhode Island and Wyoming, among others, have utilized audits to great success. Audits have saved other government entities a minimum 4 percent of their annual budget." [Another policy professional noted](#) that "the savings identified through efficiency audits are consistently at least 10 times the cost."

The experience of other states and localities also speaks well of the concept. Notable examples include:

- *Detroit Public Schools*: Facing a deficit of more than \$300 million, Detroit's distressed public school system initiated a wide-ranging performance audit that "[identified \\$53 million in annual savings](#)."
- *The State of Kansas*: In 2016, efficiency auditors provided [105 separate recommendations](#) that were estimated to generate more than \$2 billion over 5 years.
- *The State of Wyoming*: In 2017, Wyoming legislators created the [Wyoming Spending and Government Efficiency Commission](#), an entity that oversaw the administration of a third-party audit of certain state agencies' budget and operations. This [limited review identified](#) "between \$12.9 million and \$17.7 million in one-time savings and to [sic] between

\$112 million and \$227 million in savings over each two-year state budget cycle."

As has proven true in other governments, using efficiency audits has the potential to fine-tune the structure and nature of government. Now is the time for Texas's large local governments to also take advantage of this tool, especially given the massive influx of federal aid and the need for a lighter tax load.

The Facts

- Waste, fraud, and abuse are common in local government budgets, particularly among larger jurisdictions. Large cities and counties need assistance to restore fiscal discipline.
- A third-party efficiency audit is a comprehensive examination of a governmental entity's budget and operations. It is conducted for the purpose of identifying opportunities to reduce expenditures and better use resources.
- During the last legislative session, school districts were required by [House Bill 3](#) to perform an efficiency audit "[before a district seeks voter approval for increasing tax rates](#)." The school district must pay for the costs associated with an efficiency audit.
- [According to one prominent practitioner](#), "the savings identified through an efficiency audit are consistently at least 10 times the cost."

Recommendation

Require certain types of local governments to submit to a third-party independent audit of their budget and operations.

Resources

["Local Government Would Benefit From Independent Audits—Now Taxpayers Are Demanding Them"](#) by Chuck DeVore, *Forbes* (July 24, 2018).

["Auditing Austin—The Start of Something Big?"](#) [video], Texas Public Policy Foundation (Oct. 3, 2018).

[House Bill 3: Efficiency Audits for School Districts Before Increasing Maintenance and Operations \(M&O\) Taxes](#), Texas Public Policy Foundation (April 2019).

[Empowering Voters to Make Informed Decisions About Increasing Property Taxes by Using School District Efficiency Audits](#), Texas Public Policy Foundation (Nov. 2019).