

STATEWIDE EFFICIENCY AUDITS: OVERVIEW AND MODEL LEGISLATION

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NOVEMBER 2024

KEY POINTS

- Currently, state agencies are not subjected to efficiency audits with any uniformity.
- Efficiency audits can minimize costs and maximize services by investigating waste or poor allocation of resources.
- A Wyoming efficiency audit found potential savings 50 times greater than the initial cost of the audit.
- An efficiency audit of Texas' TANF program found that only 1% of resources were devoted to their goal of forming and maintaining two-parent households.

INTRODUCTION

Texans, as of the most current data, pay the sixth highest property tax in the nation ([Yushkov, 2023](#)). This is due in large part to government overspending ([Quintero & Bonura, 2023](#)). One way to address the issue of government overspending is by examining whether state agencies are using taxpayer money efficiently. State agencies are often selected for audits of their services on a piecemeal basis, either through legislation or at the direction of the State Auditor's Office, without any regularity. Requiring state agencies to undergo regular efficiency audits will streamline government spending, proactively monitor the effectiveness of the services, and ultimately ensure that taxpayer money is being spent in a way that comports with the mission of the state agency.

EFFICIENCY AUDITS

Efficiency audits, also referred to as performance audits, are independent evaluations of "the economy, efficiency, and effectiveness of state agencies, public programs, and related organizations" ([Sanchez-Pinol et al., 2023, p. 4](#)). Efficiency audits assess how well agencies work to keep costs down while providing their services, and if those services are aligned with the purpose of the agency's existence. Their efficacy is rooted in the transparency that will give taxpayers and policy makers a way to explore or ultimately eliminate unnecessary spending on programs that do not progress the goal of the agency.

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THE CURRENT STATE OF AUDITS

Public auditing authority in Texas rests in the State Auditor's Office (SAO). The SAO is appointed by the legislative audit committee (LAC), which is a six-member oversight committee that consists of the speaker of the House, the lieutenant governor, one member of the Senate appointed by the lieutenant governor, and the chairmen of the Senate Finance Committee, House Appropriations Committee, and the House Ways and Means Committee ([Tex. Government Code Sec. 321.002 \(a\) 1-6](#)). The SAO can conduct audits on "all custodians of state funds" ([Tex. Government Code Sec. 321.005\(a\)](#)). There are currently two methods by which audits can be initiated: at the behest of the SAO or by legislation. For the SAO to initiate an audit, they must submit an audit plan to the LAC. While developing the plan, the "auditor shall consider recommendations concerning coordination of agency functions made jointly by representatives of the Legislative Budget Board, Sunset Advisory Commission, and State Auditor's Office" ([Tex. Government Code Sec. 321.013\(c\)](#)). However, since the development of the plan is ultimately in the hands of the SAO, there is nothing compelling them to conduct audits on any agency "with any regularity" ([Sanchez-Pinol et al., 2023, p. 6](#)). The SAO may also hire independent auditors or delegate that power to state agencies to hire independent auditors through a "competitive selection process" outlined in the Contract Purchase Procedure ([Tex. Government Code Sec. 2156](#)). Factors included in the procedure include "the bidder's experience, and the quality and availability of the goods or contractual services" ([Tex. Government Code Sec. 2156.007](#)). Efficiency audits may also be initiated through "legislation enacted by the Texas Legislature" ([Sanchez-Pinol et al., 2023, p. 6](#)). The advantage of directing audits through legislation is uniformity and regularity throughout the state and possible corrective behavior by exposing their budgets and programs in a more transparent environment.

EFFICACY OF AUDITS

There is strong evidence both inside and outside of Texas that efficiency audits performed by states and

municipalities have improved the "efficiency and quality of public services" ([Sanchez-Pinol et al., 2023, p. 7](#)).

The first example demonstrating the effectiveness of efficiency audits concerns Texas' Temporary Assistance for Needy Families (TANF) program. In 2022, the SAO selected Public Consulting Group (PCG) to perform an audit on Texas' TANF program. One of the issues PCG found was a duplication of services in TANF's Alternatives to Abortion (A2A) program ([Sanchez-Pinol et al., 2023, p. 8](#)). The audit learned that the services provided by A2A could be absorbed into the Nurse Family Partnership Program, the Early Childhood Intervention program, and the Texas Workforce Commission. PCG uncovered a problem in A2A's payment method that ran the risk of distributing funds to ineligible people or services. The audit also discovered that only 1% of TANF's total spending was directed toward the organization's goal of forming and maintaining two-parent families—an amount that was highly insufficient for the goal at hand. Finally, the audit found that "no single entity [provided] training, monitoring, and strategic vision for Texas' TANF program" ([p. 8](#)). This lack of oversight has resulted in the misappropriation of TANF funds.

The second example displaying the necessity of such audits concerns a statewide efficiency audit that Wyoming performed in 2018, costing \$1.8 million. As a result of the audit, the state saved \$6.2 million—\$1.5 million in immediate savings and \$4.7 million in "future cost avoidance" ([Wyoming Spending and Government Efficiency Commission, 2019a, p. 2](#)). The audit was also able to identify another \$85 million in potential savings for the 2021-2022 biennium ([Wyoming Spending and Government Efficiency Commission, 2019b, p. 79](#)). The savings found by this audit were roughly 51 times greater than the audit cost to perform ([Sanchez-Pinol et al., 2023, p. 8](#)). The simple act of having an outside auditor exploring government efficiency saved the state and its taxpayers nearly \$100 million.

CONCLUSION

Efficiency audits are tools that help streamline state budgets and increase the quality of services they provide. By not statutorily requiring regular efficiency audits for agencies and programs, Texas could possibly lose millions of dollars in government overspending. Subjecting state agencies to regular efficiency audits is a proactive way to minimize costs and maximize services, instead of waiting to address unseen but easily preventable issues until after the damage is done. In times of rampant inflation, when Texans are suffering from the results of out-of-control government growth, efficiency audits on state agencies can at least ensure that the state is doing its best to ease this burden.

RECOMMENDATION

The 89th Texas Legislature should enact legislation requiring state agencies to conduct regular third-party efficiency audits that evaluate cost reduction opportunities, program quality, and accessibility. The results of the audits should be published preceding a legislative session. Third-party efficiency audits should be funded using the resources already available to agencies (namely, the funds allocated for their financial audits), thus keeping third-party audits budget neutral. ■

MODEL LEGISLATION

A BILL TO BE ENTITLED

AN ACT

relating to the conduct of efficiency audits of state agencies.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Subtitle C, Title 3, Government Code, is amended by adding Chapter 327 to read as follows:

CHAPTER 327. EFFICIENCY AUDITS OF STATE AGENCIES

Sec. 327.001. DEFINITIONS. In this chapter:

(1) “Audit plan” has the meaning assigned by Section 321.001.

(2) “Department” has the meaning assigned by Section 321.001.

(3) “Efficiency audit” means an evaluation of the economy, efficiency, and effectiveness of department operations, including the effectiveness of department programs at achieving intended objectives.

(4) “External auditor” means a private entity selected by the state auditor to conduct an efficiency audit of a department.

(5) “Legislative audit committee” means the committee described by Section 321.002.

Sec. 327.002. REQUIRED EFFICIENCY AUDIT. (a) Each department shall undergo an efficiency audit in accordance with this chapter.

(b) The state auditor, subject to the legislative audit committee’s approval, shall adopt a schedule for conducting the efficiency audits required by this chapter and include the annual portion of the schedule in the audit plan under Section 321.013. The schedule must provide for each department to be audited every four years. A department may not be audited under this chapter in the same year that the department is reviewed under Chapter 325 (Texas Sunset Act).

(c) A department required by law to perform an internal efficiency audit is not required to perform the audit in any year the department is audited under this chapter.

(d) A department shall pay the costs incurred by the state auditor relating to an efficiency audit required by this chapter. The state auditor shall determine the costs of the audit and the department shall pay the amount of those costs promptly on receipt of a statement from the state auditor regarding those costs.

Sec. 327.003. SELECTION AND SUPERVISION OF AUDITOR. (a) Not later than March 1 of the year in which an efficiency audit of a department is scheduled under this chapter, the state auditor shall contract with an external auditor to conduct the audit.

(b) The state auditor shall oversee the external auditor and ensure that the efficiency audit is conducted in accordance with the requirements of this chapter.

(c) The external auditor is not subject to direction from the department being audited.

Sec. 327.004. SCOPE OF AUDIT. (a) The state auditor shall establish the scope of each efficiency audit conducted under this chapter with the external auditor contracted to perform the audit.

(b) At a minimum, an efficiency audit must:

(1) examine all state resources, including financial resources, staff, and technology, to determine whether those resources:

(A) are used effectively and efficiently to achieve the desired outcome for a department's program beneficiaries; and

(B) are not used for purposes other than the intended goals of the audited programs;

(2) identify and make recommendations for cost savings and reallocation of resources to improve the effectiveness of audited programs; and

(3) identify opportunities for improving services through consolidation of functions, outsourcing, and elimination of duplicative efforts.

Sec. 327.005. REPORT TO LEGISLATURE. (a) Not later than November 1 of the year an efficiency audit is conducted under this chapter, the state auditor shall:

(1) prepare a report with the external auditor contracted to perform the audit and submit the report to the chairs of the standing committees of each house of the legislature with primary jurisdiction over the audited department; and

(2) submit the report, recommendations, and complete audit to the audited department.

(b) The state auditor and the audited department shall publish the report, recommendations, and complete efficiency audit on the entity's Internet website.

Sec. 327.006. REQUIRED IMPLEMENTATION PLAN. Not later than the 90th day after receiving the complete audit and recommendations, the administrative head of the audited department shall deliver a plan for implementing the recommendations to the legislative audit committee and to the chairs of the standing committees of each house of the legislature with primary jurisdiction over the audited department. The implementation plan must include a justification for any recommendation the audited department declines to implement.

SECTION 2. Section 322.017, Government Code, is repealed.

SECTION 3. Not later than January 1, 2024, the state auditor shall adopt the schedule required by Section 327.002, Government Code, as added by this Act, for conducting efficiency audits of each department.

SECTION 4. This Act takes effect September 1, 2023.

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ABOUT THE AUTHOR



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As a proud Eagle Scout John is an avid camper and enjoys spending time in the outdoors as well as at home with his wife.

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