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H.B. No. 12

A BILL TO BE ENTITLED

AN ACT

relating to the review and audit of certain state agency  
operations.

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

SECTION 1. Section 325.002, Government Code, is amended by  
adding Subdivision (4) to read as follows:

(4) "Regulatory agency" means a department,  
commission, board, or other agency that:

(A) is created by the constitution or by statute;

(B) is in the executive branch of state  
government;

(C) has statewide authority; and

(D) has authority to deny, grant, renew, revoke,  
or suspend a license, certification, or other authorization to  
engage in an activity.

SECTION 2. Section 325.009, Government Code, is amended by  
adding Subsections (b-1), (b-2), and (b-3) to read as follows:

(b-1) The commission shall provide information on how the  
public may participate in the commission's review of a state agency  
and provide input on a state agency's performance. The commission  
shall, to the extent practicable, solicit input from parties  
interested in a state agency's operations.

(b-2) Each state agency being reviewed by the commission  
under this chapter shall at the beginning of the review:

1           (1) post a notice on the state agency's Internet  
2 website informing the public:

3           (A) that the state agency is being reviewed by  
4 the commission; and

5           (B) how the public may participate in the  
6 commission's review of the state agency and provide input on the  
7 state agency's performance; and

8           (2) if the state agency being reviewed is a regulatory  
9 agency:

10           (A) notify each person licensed, certified, or  
11 otherwise authorized by the regulatory agency to engage in an  
12 activity regulated by the agency of the public hearing under this  
13 section at which the agency will be reviewed; and

14           (B) solicit input from persons provided notice  
15 under Paragraph (A) regarding the regulatory agency's performance.

16           (b-3) Subsection (b-2) does not apply to a river authority  
17 subject to review under this chapter.

18           SECTION 3. Section 325.010(b), Government Code, is amended  
19 to read as follows:

20           (b) In the report the commission shall include:

21           (1) its findings regarding the criteria prescribed by  
22 Section 325.011, except Section 325.011(14);

23           (2) its recommendations based on the matters  
24 prescribed by Section 325.012, except recommendations relating to  
25 criteria prescribed by Section 325.011(14); ~~and~~

26           (3) if the agency being reviewed is a regulatory  
27 agency, an analysis of the regulatory agency's performance during

1 the preceding 10 years or since the last review of the agency under  
2 this chapter, whichever is longer, based on the agency's  
3 performance measure targets as listed in the General Appropriations  
4 Act;

5           (4) an evaluation of the agency's performance measure  
6 targets listed in the General Appropriations Act, including whether  
7 the targets are:

8                   (A) aligned with the mission, goals, and  
9 objectives of the agency; and

10                   (B) appropriate for assessing the agency's  
11 achievement of the goals listed; and

12           (5) other information the commission considers  
13 necessary for a complete review of the agency to reduce fraud,  
14 waste, and abuse and to increase efficiencies.

15           SECTION 4. Section 325.012(a), Government Code, is amended  
16 to read as follows:

17           (a) In its report on a state agency, the commission shall:

18                   (1) make recommendations on the abolition,  
19 continuation, or reorganization of each affected state agency and  
20 its advisory committees and on the need for the performance of the  
21 functions of the agency and its advisory committees;

22                   (2) make recommendations on the consolidation,  
23 transfer, or reorganization of programs within state agencies not  
24 under review when the programs duplicate functions performed in  
25 agencies under review;

26                   (3) make recommendations to improve the operations of  
27 the agency, its policy body, and its advisory committees, including

management recommendations that do not require a change in the agency's enabling statute; ~~and~~

(4) make recommendations on the continuation or abolition of each reporting requirement imposed on the agency by law; and

(5) make recommendations to improve the agency's key performance measures through the addition, amendment, or removal of the performance measure targets listed in the General Appropriations Act.

SECTION 5. Chapter 325, Government Code, is amended by adding Section 325.016 to read as follows:

Sec. 325.016. LIMITED REVIEW OF CERTAIN REGULATORY AGENCIES. (a) During the two-year period beginning on September 1 of the sixth year after the date a regulatory agency was last continued under Section 325.015, the commission shall conduct a limited review of the agency's rulemaking, including:

(1) an assessment of the agency's rulemaking process and the extent to which the agency has encouraged participation by the public in making its rules and decisions and the extent to which the public participation has resulted in rules that benefit the public;

(2) the extent to which the agency adopts and enforces rules relating to potential conflicts of interest of its employees; and

(3) the necessity and effectiveness of rules adopted by the agency.

(b) Not later than September 1 of the sixth year after the

date a regulatory agency was last continued under Section 325.015,  
the agency shall report to the commission the information in  
Subsection (a) related to rulemaking and rule review activities of  
the agency.

(c) Not later than September 1 of the year that is two years  
after the date the review under this section begins, the commission  
shall prepare a written report on the commission's review under  
this section.

(d) The report prepared by the commission under this section  
is a public record.

SECTION 6. 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) "Commission" means the Sunset Advisory  
Commission.

(3) "Efficiency audit" means an evaluation of the  
economy, efficiency, and effectiveness of state agency operations,  
including:

(A) determining whether the state agency is  
managing or using its resources, including state money, personnel,  
property, equipment, and space, in an economical and efficient  
manner;

(B) identifying causes of inefficiencies or  
uneconomical practices, including inadequacies in management

1 information systems, internal and administrative procedures,  
2 organizational structure, use of resources, allocation of  
3 personnel, purchasing, agency policies, and equipment;

4 (C) determining whether financial, program, and  
5 statistical reports of the state agency contain useful data and are  
6 fairly presented;

7 (D) determining whether, according to  
8 established or designated program objectives, responsibilities or  
9 duties, statutes and rules, program performance criteria, or  
10 program evaluation standards, the objectives and intended benefits  
11 of the agency's program are being achieved efficiently and  
12 effectively; and

13 (E) determining whether, according to  
14 established or designated program objectives, responsibilities or  
15 duties, statutes and rules, program performance criteria, or  
16 program evaluation standards, the agency's program duplicates,  
17 overlaps, or conflicts with another state program.

18 (4) "External auditor" means a private entity selected  
19 by the state auditor to conduct an efficiency audit of a state  
20 agency.

21 (5) "Legislative audit committee" means the committee  
22 described by Section [321.002](#).

23 (6) "State agency" means an entity expressly made  
24 subject to Chapter 325 (Texas Sunset Act) other than a river  
25 authority.

26 Sec. 327.002. REQUIRED EFFICIENCY AUDIT. (a) Each state  
27 agency shall undergo an efficiency audit in accordance with this

1 chapter.

2 (b) The state auditor, subject to the legislative audit  
3 committee's approval, shall adopt a schedule for conducting the  
4 efficiency audits required by this chapter and include the annual  
5 portion of the schedule in the audit plan under Section 321.013.  
6 The schedule must provide for each state agency to be audited during  
7 the two-year period beginning on September 1 four years before the  
8 date the state agency is scheduled to be abolished under Chapter 325  
9 (Texas Sunset Act).

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

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

18 (e) The state auditor, subject to the legislative audit  
19 committee's approval, may determine, in the interests of  
20 efficiency, whether the audit should be performed by the state  
21 auditor or an external auditor.

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

26 (b) The state auditor, in cooperation with the Legislative  
27 Budget Board, shall oversee the external auditor and ensure that

1 the efficiency audit is conducted in accordance with the  
2 requirements of this chapter and the scope of the audit established  
3 under this chapter.

4 (c) The external auditor is not subject to direction from  
5 the state agency being audited.

6 Sec. 327.004. SCOPE OF AUDIT. (a) The state auditor, in  
7 cooperation with the Legislative Budget Board, shall establish the  
8 scope of each efficiency audit conducted under this chapter.

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

10 (1) examine state resources, including financial  
11 resources, staff, personal property, real property, and  
12 technology, to determine whether those resources:

13 (A) are used effectively and efficiently to  
14 achieve the desired outcome for a state agency's program  
15 beneficiaries; and

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

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

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

24 Sec. 327.005. REPORT TO LEGISLATURE. (a) Not later than  
25 November 1 of the year an efficiency audit is conducted under this  
26 chapter, the state auditor, in cooperation with the Legislative  
27 Budget Board and in consultation with any external auditor



1 contracted to perform the audit, shall:

2 (1) prepare a report of the audit with the  
3 recommendations; and

4 (2) submit the report, recommendations, and complete  
5 audit to the commission, the governor, the lieutenant governor, the  
6 speaker of the house of representatives, the legislative audit  
7 committee, the chairs of the standing committees of each house of  
8 the legislature with primary jurisdiction over the audited state  
9 agency, and the audited state agency.

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

13 Sec. 327.006. REQUIRED IMPLEMENTATION PLAN. Not later than  
14 the 90th day after the date of receiving the complete audit and  
15 recommendations, the administrative head of the audited state  
16 agency shall deliver a plan for implementing the recommendations to  
17 the commission, the governor, the lieutenant governor, the speaker  
18 of the house of representatives, the legislative audit committee,  
19 and the chairs of the standing committees of each house of the  
20 legislature with primary jurisdiction over the audited state  
21 agency. The implementation plan must include a reasoned  
22 justification for any recommendation the audited state agency  
23 declines to implement.

24 SECTION 7. Section [322.017](#), Government Code, is repealed.

25 SECTION 8. Not later than January 1, 2026, the state auditor  
26 shall adopt the schedule required by Section 327.002, Government  
27 Code, as added by this Act, for conducting efficiency audits of each

1 state agency subject to that section.

2 SECTION 9. This Act takes effect September 1, 2025.