

# Efficiency Audit Guidelines

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During times of high interest rates and crippling inflation, keeping costs in line is more important than ever. Because of heightened price competition, a firm cannot always counter increasing costs with increases in prices. As an alternative, firms must operate at maximum efficiency to keep costs at a minimum.

An efficiency audit allows a firm to systematically review its entire operation and to determine potential cost reductions. Areas for potential cost reduction include management, production, purchasing, marketing and finance. By thoroughly evaluating these areas, management can determine a realistic goal for total cost reduction. This goal may be to break even or to increase profits 10 percent more than last year. Those areas with the greatest potential for cost reduction should have the highest priority. After management establishes priorities, it will be able to develop an action plan to put the firm back on the road to higher profits.

The following form provides suggested methods for calculating savings in each of the potential cost-reduction areas mentioned. A space is provided for each estimated savings. The subtotals for all sections are added to get a total that can be compared with the total cost-reduction goal.

## Goal

Total amount that expenses must be reduced = \$ \_\_\_\_\_

## Management

- Review all paperwork, by department if necessary, and eliminate marginal or seldom-used reports.

Number of reports eliminated x cost of preparation = \_\_\_\_\_

- Review all multipart forms used by your firm and eliminate all but the most critical to save filing space and clerical time. Include managerial and secretarial time.

Number of forms x cost of preparation = \_\_\_\_\_

- Consider eliminating or severely restricting copy machine use. Consider what you do with all of those copies and the file clerk's time.

Number of copies reduced x cost per unit = \_\_\_\_\_

- Analyze your long distance telephone budget. Is phone use realistic? Necessary? Can it be cut? Consider a given percentage reduction.

Amount of telephone cost reduction = \_\_\_\_\_

- Consider training programs, such as those on managing time and communication, to increase managerial productivity. Compute time saved x average salary less expense of personnel attending program and salary of personnel attending program.

Value of increased productivity = \_\_\_\_\_

- Visit with personnel at all levels to explain the seriousness of efficiency and productivity and to obtain their inputs and ideas.

Savings from their suggestions = \_\_\_\_\_

- Reduce business travel by using long distance conference calls.

Number of meetings x expenses and salaries of personnel attending meetings less telephone costs = \_\_\_\_\_

- Critically examine how often you hold committee meetings. Consider eliminating all but those for a specific purpose. Don't bring people together just to have another meeting.

Number of meetings that can be eliminated x number of employees x salaries x time involved = \_\_\_\_\_

- If you have a computer, can you really justify keeping it? Have you examined the service bureaus available? Computer hardware and software rental, salaries and benefits, overhead and floor space can be more expensive than you think.

Cost of computer facilities and personnel x salaries less cost of salaries and similar services by an outside firm = \_\_\_\_\_

- Examine the structure of your organization. Has it become top-heavy with staff and supervisors? Eliminate unproductive or unnecessary management personnel. If possible, consolidate two or more positions into one new position.

Positions eliminated x salary and wages = \_\_\_\_\_

- Evaluate centralization of services. Are expensive functions duplicated at remote locations or in various departments?

Estimated cost savings = \_\_\_\_\_

- Cut managerial salaries and benefits. People are willing to take cuts to save jobs, if such plans are explained and implemented carefully.

Percentage of cut x total payroll = \_\_\_\_\_

**Management Subtotal=\_\_\_\_\_**

# Production

- Analyze all handling and storage to reduce broken or damaged stock, including raw, in-process and finished goods.

Reduced scrap units x costs = \_\_\_\_\_

- Recycle or sell any scrap or wastes. Most industrial wastes can be recycled or sold rather than just used for landfill.

Income from selling scrap or waste = \_\_\_\_\_

- Analyze energy usage. Consider all major power uses. Can you lower peak demand by altering your use of major power-using equipment?

Estimated energy saved = \_\_\_\_\_

- Critically review your materials handling practices. Have they been updated in recent years? "We've always done it this way" is not a valid excuse! Use better methods, right height-of-work stations, minimum movements and better location of machines and assembly parts to increase production.

Unnecessary time eliminated x cost + other expenses = \_\_\_\_\_

- Solicit worker input for potential increases in productivity. They are a wealth of information.

Savings from suggestions and ideas of workers = \_\_\_\_\_

- Make sure employees work a full shift. They should be ready to begin at starting time and should not stop working before quitting time. Keep breaks to a set time and no longer.

Time wasted x number of workers x average hourly salary = \_\_\_\_\_

- Initiate productivity training for employees or cross-train employees to avoid duplication of programs.

Reduced worker cost less program cost + expenses + wages = \_\_\_\_\_

- Analyze inventories for slow-moving items — both raw materials and finished goods. Sell, scrap or junk items with little or no future value. This may also cut warehousing costs and insurance premiums.

Estimated cost savings = \_\_\_\_\_

- Analyze repair parts inventory and consider returning slow-moving items to vendors.

Cost saving by reducing inventory = \_\_\_\_\_

- Eliminate unproductive workers. Number  
x wages + benefits = \_\_\_\_\_

- Cut wages and benefits. Workers will accept reduced wages to save jobs, but such action must be managed properly.

Percentage of cut x total payroll = \_\_\_\_\_

**Production Subtotal= \_\_\_\_\_**

## Purchasing

- Review purchasing strategy. Costs are lower for larger lot sizes. Cost savings x units purchased = \_\_\_\_\_
- Lower costs by using blanket purchase orders to cover high-volume materials. Cost savings x units purchased = \_\_\_\_\_
- Personally contact major suppliers for price concessions or discounts. Cost savings x units purchased = \_\_\_\_\_

**Purchasing Subtotal = \_\_\_\_\_**

## Sales/Marketing

- Carefully review performance by product class to identify those areas contributing to the profit picture. Realistically eliminate unprofitable lines or items that are inflating costs.

Estimated cost savings = \_\_\_\_\_

- Review expense accounts, advertising allowances and other controllable expenses.

Estimated cost savings = \_\_\_\_\_

- Have sales staff prepare a report of all calls made with results. Eliminate unnecessary calls.

Estimated cost savings = \_\_\_\_\_

- Regularly consult customers for new product ideas.

Estimated cost savings = \_\_\_\_\_ **Sales/Marketing**

**Subtotal = \_\_\_\_\_**

## Finance

- Check with your accountant or banker to check eligibility under any new tax laws, especially shifting year-end expenses, paying year-end bonuses with notes reevaluating inventories.

Estimated tax savings = \_\_\_\_\_

- Invest excess funds in money market accounts, T-shares or other short-term investments for weekends and during the month before wages and bills are paid.  
Funds x interest = \_\_\_\_\_
  - Sell seldom-used equipment to free up high cost funds by selling and leasing assets. Lease equipment instead of buying. Sell unused equipment which will become obsolete and decline in value, thereby saving property taxes. Sell excess assets, cars, trucks, office equipment and real estate to pay off liabilities.  
Revenue from sales = \_\_\_\_\_
  - Update insurance policies. Put insurance out for bids. Consider increasing deductibles.  
Cost savings = \_\_\_\_\_
  - Personally review slow-paying accounts.  
Collections accelerated x interest rate = \_\_\_\_\_
  - Perform financial functions, such as accounts payable, payroll and collections, more efficiently by contracting out as opposed to doing them in-house.  
Estimated cost savings = \_\_\_\_\_
  - Re-design accounting information for decision making to avoid unprofitable decisions.  
Estimated cost savings = \_\_\_\_\_
- Finance Subtotal = \_\_\_\_\_**

## Grand Total

Management subtotal + production subtotal + purchasing subtotal + sales/marketing subtotal + finance subtotal = \_\_\_\_\_

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