

**MANAGEMENT
OBJECTIVE**[Return to Table of Contents](#)

Establish and utilize ongoing processes to gather, analyze, report, and act on information on those stakeholder expectations and environmental factors which directly affect the mission, goals, objectives, plans, operations, and results of the entity.

BACKGROUND

As part of the strategic planning process, state agencies are now required to assess their internal and external policy environments (Vernon's Texas Code Annotated, Article 6252-31; original enactment H.B. 2009; recodified at *Government Code*, Sections 2056.001 - 2056.010). A thorough understanding of the entity's policy environment is basic to a review of all other management controls. Additional related background and definitions are found in the modules on Mission and Strategic Planning.

**DEFINITIONS
(in alphabetical order)**

Beneficiaries are those individuals who routinely associate with or are directly affected by entity activities. This includes both clients served or regulated by the entity and entity employees. Beneficiaries are a subset of stakeholders.

Policy environment refers to key factors that influence the success of an entity in achieving its mission and goals. For example, changes in the economy, demographics, technology, laws, judicial decisions, and resource availability are all factors that can all affect the success of an entity.

Stakeholders are all parties who have an interest in or are affected by the entity's existence and operations.

**OVERVIEW OF THE
PROCESS**

The basic phases of a policy environment assessment are:

- **Review and interpret applicable legislation.**
- **Characterize and determine the expectations of stakeholders.**
- **Scan the internal and external policy environments (external/internal assessment).**
- **Review and analyze information collected on the policy environment; determine and prioritize factors to which the entity should adjust.**
- **Report information from the policy environment assessment to the mission and strategic planning processes.**
- **Monitor and maintain alignment of policy environment assessment and entity mission, goals, and objectives.**

PROCEDURES

Suggested procedures, organized according to the elements of a finding, are listed below. They should be expanded or tailored to fit the specific entity being reviewed.

Note: the following procedures and the process described above are normative, rather than prescriptive. That is, they represent "average" or baseline thinking since they assemble information which repeatedly appeared in the various resources used to prepare this module. Do not be too hasty or literal in applying a given criterion or procedural step to a specific entity. While omissions or variations may be obvious, judgment must still be used to determine whether such omissions or variations are material.

Review criteria:

General criteria

General criteria applicable to the policy environment assessment process are as follows:

Policy environment assessment involves gathering, analyzing, reporting, and acting on information on those political, economic, demographic, social, cultural, and technological factors which affect the present and projected operations and results of the entity. A complete policy environment assessment should include information on past, present, and future entity performance. The assessment should forecast outputs, outcomes, and other key measures for the five-year period of the strategic plan (Governor's Office of Budget and Planning and Legislative Budget Board, p. 21).

Assessing the policy environment and acting on the assessment are key responsibilities of a board, commission, and executive management. This assessment should both set the stage for entity strategic planning and help the entity identify and respond to current and future issues which might affect operations and results. As the basis for strategic planning, the policy environment assessment should also inform all entity decisions about goals, objectives, strategies, and performance measures (Governor's Office of Budget and Planning and Legislative Budget Board, p. 20).

The policy environment assessment should specify the entity's current position and its expectations for internal and external change. The assessment should address both positive and negative factors affecting the agency, including (Governor's Office of Budget and Planning and Legislative Budget Board, p. 20):

- strengths, such as improved client relations or higher efficiency in resource use
- weaknesses, such as shortages of qualified staff or inability to meet performance targets
- opportunities, such as improved technology or possibilities for requesting changes in legislation
- threats, such as significant increases in service demand or possible resource reductions

Policy environment assessment can be highly labor-intensive and time-consuming and can generate large quantities of information. Thus, at each step of the process, entities should consider:

- Do we fully understand the issue and information under scrutiny?
- Are the issues and information under scrutiny fundamentally relevant to our operations and results?
- Do we know how, where, by when, and by whom the information we seek will be gathered, analyzed, and reported?
- In which areas should we seek assistance in gathering, analyzing, or reporting issues and information?
- What is the best mix of primary and secondary research?
- To what extent can we realistically effect change in a given issue area?

To use assessment information effectively, an entity should:

- Regularly test and critique the information obtained.
- Act on the information obtained.
- Solicit input from major stakeholders, key beneficiaries, and appropriate external human and information resources.

Since the policy environment is fluid, assessment should be ongoing.

Specific criteria

The criteria related to the basic phases of the policy environment assessment process follow below. Additional information is found in the Appendix to this module.

Review and interpret applicable legislation

The legal context provides important information about stakeholder expectations and needs and potential risks to the entity. Legislation both documents why the State created (and funded) an entity or state function and generally clarifies the operational boundaries of and resources available to the entity. Thus, the entity should review and interpret applicable legislation, rules, regulations, and other statutory requirements which limit or control entity operations and results, e.g., rules regarding contracting or procurement. Such legislation should be considered when creating or revising the entity's mission statement, plans, or operations.

In addition, an entity should periodically review and analyze changes in legislation and funding. These changes may directly affect the entity's operations. They can also provide information on current state priorities.

Among the sources of information on the legal context in which a state entity operates are *Attorney General Opinions*, *Code of Federal Regulations*, *Federal Register*, *General Appropriations Act* (especially the riders), *Texas Administrative Code*, *Texas Register*, *United States Code*, *Vernon's Texas Civil Statutes*, *Vernon's Texas Code Annotated*, and *Vernon's Texas Statutes Annotated*.

Characterize and determine the expectations of stakeholders

An entity must identify and characterize its stakeholders. Depending on the nature and scope of the entity, stakeholders may include:

- all persons or organizations within the entity's jurisdiction
- groups of persons or organizations receiving entity services or being regulated by the entity
- policy-makers, including the federal government, legislature, legislative oversight committees, and governing boards
- entity employees, contractors, and vendors
- trade/professional groups, public interest groups, and the media

Specifically, entities should determine:

- Who key stakeholders and beneficiaries are.
- When, where, how, why, and by whom stakeholders decide to establish and maintain relations with the entity, including patterns of decision-making about, demand for, and consumption of entity products and services.
- Why the entity is of value to key stakeholders.

To the extent feasible, an entity should assess, monitor, and act upon stakeholders' expectations and needs. Such expectations and needs may be based on legislation, socio-economic change, past experience, activity in other states or the private sector, or other criteria. Stakeholders may also have expectations and needs about the kinds, location, timeliness, quality, and quantity of services/products, and other potentially changing factors. For example, a change in eligibility requirements for certain health programs may drastically increase the needs to be met or population to be served.

When possible, entities should rely on reliable and valid primary research but only after informing themselves about the relative costs and benefits of such research, including assessing the availability of needed information from secondary sources. Valuable sources of secondary research include U. S. Census Bureau, Bureau of Labor Statistics, *Statistical Abstract of the United States*, *Annual Survey of Manufacturers*, *Census of Retail Trade*, sector-specific trade and professional associations/publications, print and electronic media, Chambers of Commerce, academic institutions, and so on.

Scan the internal and external policy environments (external/internal assessment)

The first step of any planning effort, whether strategic or operational, must be an assessment of all relevant internal and external factors (variables) that affect the realization of goals, objectives, and strategies for which the unit is responsible. Without this kind of review, strategies that seem appropriate may be undertaken only to find they have missed or fallen short of the mark.

To facilitate acquisition of data on relevant variables, the law requires the Comptroller's Office to provide a long-term statewide economic and demographic forecast for use in policy environment assessment. Entities should use this information to the extent that variables are relevant to their activities. The Revenue Estimating Division of the Comptroller's Office can provide a more complete set of variables for entity use. Statute further requires that entities (Governor's Office of Budget and Planning and Legislative Budget Board, pp. 20, 43):

- Identify priority and other service populations under current law and how such groups are expected to change during the planning period.
- Analyze their ability to meet current and expected needs and summarize resources required to meet future needs.
- Analyze expected service changes due to statutory alteration.
- Summarize and prioritize capital improvement needs during the period covered by the strategic plan.
- Relate information about use of historically underutilized vendors and public works contractors.

An entity's policy environment assessment should further address the following

questions (Governor's Office of Budget and Planning and Legislative Budget Board, p. 21):

- What major issues, conditions, or problems in the external environment affect delivery of entity products and services?
- What conditions could affect or alter key elements of the policy environment?
- What are the implications of specific changes in the policy environment, such as changes in state or federal law?
- What are the most significant indicators of customer demand and public need for our products and services?
- What are the relationships between our programs, the programs of other public, private, and quasi-public entities, statewide initiatives, and the needs of beneficiaries?

In assessing its relationships with other organizations (federal, state, regional, and local), the entity should include those with authority over the entity, those with which the entity has peer relationships, and those over which the entity has authority. Depending on the nature and scope of its operations, the entity may also need to assess the international policy environment.

The entity should also gather, analyze, report, and act on such internal environmental variables as organization structure, organization culture, policies and procedures, resource availability and appropriateness, technological infrastructure, and problem-solving and decision-making capabilities.

Wherever feasible, input should be solicited from all relevant operational levels when the policy environment assessment is being developed. Since operations management is often more aware of specific strengths, weaknesses, opportunities, and threats, it is a valuable information resource.

Operations management can facilitate assessment of the internal policy environment by:

- Identifying internal risk exposure and related internal controls. Additional information is found in the Risk Assessment module.
- Assessing internal stakeholder needs, determining the resources needed to achieve the entity's goals and objectives, and specifying required resource changes. Resources may include human resources, computer technology, data, time, money, capital equipment, facilities, or legislative changes.
- Identifying priorities and providing strategies for allocating resources through program/service, operational, personnel, financial, and strategic plans.

Review and analyze information collected on the policy environment; determine and prioritize factors to which the entity should adjust

Since resources are inevitably constrained, the entity may not be able to plan or implement action on every factor identified during its policy environment assessment. Thus, management should limit and prioritize those factors which are used for planning and operations in an informed and careful way. This analysis should consider the rate of change in the factors, windows of opportunity, and other information that can be used to evaluate the relative importance of the various factors. See the modules on [Risk Assessment](#) and [Problem-Solving and Decision-Making](#) for processes that can be used by the entity to prioritize and otherwise analyze policy environment factors.

In analyzing the information collected on the external policy environment, the entity should address the following questions (Governor's Office of Budget and Planning and Legislative Budget Board, pp. 21-22):

- What changes can we reasonably expect in our stakeholder and beneficiary populations during the strategic planning period?
- What is the current and projected level of customer demand and public need for our products and services?
- Which current and emerging political, economic, demographic, social, cultural, and technological trends are most likely to affect our operations or results?
- What opportunities exist for improving coordination or eliminating duplication between our programs and those of other entities? What do we perceive as the strengths and weaknesses of these duplicate programs and the entities which offer them?
- What are the nature, scope, quality, and opportunities to improve our external relationships?
- How do stakeholders perceive the image, quality, quantity, features, benefits, and utility of our products and services?
- In which product or service areas are we perceived as leaders? As followers? As redundant? Which products or services should be expanded, revised, or eliminated?
- How do our people, processes, technologies, products and services compare to recognized standards or evaluation criteria?
- In which areas and for what reasons have we made progress toward or failed to meet current entity goals and objectives?
- How reliable and realistic are projections of performance, outputs, and outcomes during the next planning cycle? Are we measuring the right things? Are our measures appropriate?

In analyzing the information collected on the internal policy environment, the entity should address the following questions (Governor's Office of Budget and Planning and Legislative Budget Board, p. 22):

- How well do our management processes and controls support meeting the expectations and needs of beneficiaries and other key stakeholders? Does our organization culture support innovation, creativity, candor, feedback, and critique?
- Which specific norms, standards, policies, procedures, and practices

- enhance or constrain our present and future ability to respond to changing conditions in the policy environment?
- How and why have we (not) changed or grown?
 - What are our internal managerial or operational accomplishments and failures? How might we improve the operation and results of our product/service delivery systems?
 - Do our programs and services support or conflict with one another?
 - What sectors, programs, or activities are expected to grow or decline, and how have/should we accommodate such changes?
 - What are our current and anticipated resource needs? Why, from whom, when, and for how long might additional resources be needed?
 - How, where, by when, and at what cost might we enhance the efficiency or effectiveness of our existing human, technological, or other resources?

Report information from the policy environment assessment to the mission and strategic planning processes

The external/internal assessment should be an ongoing process that provides information for each element of the strategic plan. Data from the assessment of the policy environment should feed into planning, whether at the executive or operational level. For further details about the entity's mission and strategic planning, see the [Mission](#) and [Strategic Planning](#) modules.

A policy environment assessment should also be done for administrative and operational levels (units) within an entity. Goals and objectives for all units should relate appropriately to the entity's mission, goals, and objectives.

Monitor and maintain alignment of policy environment assessment and entity mission, goals, and objectives.

Managers of an entity should continually monitor and respond to the environment in which they operate. Key internal and external factors should be identified and monitored, and intelligent, relevant responses should be made to changes in these factors.

- Monitor interfaces: An entity should actively develop and manage its relationships with other organizations and forces in its environment to minimize conflict and encourage cooperation, particularly if other organizations have overlapping clients or services. An entity should monitor interfaces with other entities to detect changing conditions which would impact its operations. Information exchange and mutual support, both within and among entities, occur when open communications are established and used.
- Assess need for and adapt to change: Continual monitoring provides information about the need for change. Decisions for change require planning and should be in alignment with the entity's goals and objectives.

**Assess Condition:
Determine the actual
process used**

Conduct interviews, observe operations, and identify and collect available documentation in order to gain an understanding of the entity's actual policy environment assessment process. Included in the actual process are both official/unofficial and formal/informal processes and controls. An official process may exist even if it is not documented. Possible procedures include, but are not limited to:

- Determine where the policy environment assessment process resides in the entity, who participates in the process, and how the participants are selected.
- Obtain and review any manuals, policies, and forms that could document any phase of the policy environment assessment process, including its relationship to entity goals, objectives, strategies, and plans.
- Determine if and how management consciously selects and employs the assumptions, criteria, methods, processes, and techniques used in the policy environment assessment process. Obtain and review available documentation on the assessment of risks, costs, and benefits.
- Determine how and for which factors the entity scans when conducting its policy environment assessment.
- Determine the criteria, methods, and processes management uses to limit, analyze, and prioritize the factors identified by the policy environment assessment. Determine how and which factors are ultimately addressed in entity plans and operations. See the module on [Problem-Solving and Decision-Making](#) for more information.
- Determine the derivation, scope, and use of information about stakeholders/beneficiaries gathered in policy environment assessment.
- Determine if and how the policy environment assessment transfers information to the entity's planning processes.
- Obtain information on the process the entity uses to review, evaluate, and adjust the effectiveness of its policy environment assessment process.

In addition to gaining an understanding of the actual process, also try to find out:

- how the participants view the actual process
- what parts of the process they see as successful or unsuccessful and why
- what they think is important about the process and why

This information may help identify causes and barriers.

Determine the strengths and weaknesses of the actual process

Using the tailored criteria, the understanding of the entity's process gained above, and the procedures in this section, analyze the actual process to determine if it:

- is designed to accomplish the management objective (this module, page 1)
- has controls that provide reasonable assurance that the process will work as intended
- is implemented and functioning as designed
- is actually achieving the desired management objective(s)

Suggested procedures for each of these four analysis steps are detailed below. In executing these procedures, remember to identify and analyze both strengths and weaknesses.

Identify and review the steps in the actual process to determine if the process is designed to accomplish the management objective(s). Possible procedures include, but are not limited to:

- Determine if all major steps in the criteria are included in the actual process. If steps are missing, determine if their absence is likely to have a materially negative effect on the policy environment assessment process.
- Determine if all the steps in the process appear to add value. If there are steps that do not appear to add value, try to get additional information on why they are included in the process.
- Review the order of the steps in the process to determine if it promotes productivity.
- Review the level of technology used in the process to determine if it is up-to-date and appropriate to the task. Besides computer, electronic, communications, and other mechanical technology, you should also consider what kinds of management technology are used (Gantt charts, process maps, decision matrices, etc.). See the [Appendix](#) to the Problem-Solving and Decision-Making module for more information.

Identify the controls over the process to determine if they provide reasonable assurance that the process will work as intended. These controls should be appropriate, placed at the right point(s) in the process, timely, and cost effective. Possible procedures include, but are not limited to:

- Draw a picture of the process, the controls, and the control objectives (see the graphic of the procurement process in the [Introduction](#) for an example). Flowcharts of the policy environment assessment process can help identify inputs, processes, and outputs.
- Determine if the control objectives are in alignment with the overall management objective(s) (this module, page 1).
- Identify the critical points of the process (i.e., those parts of the process most likely to determine its success or failure or expose the entity to high levels of risk) and the controls related to them.

Consider whether the controls are:

- in the right location within the process (input, operations, output)

- timely (real time, same day, weekly, etc.)
- Compare the cost of the controls(s) to the risk being controlled to determine if the cost is worth the benefit.
- Determine what controls are in place for monitoring and evaluating the continuity, thoroughness, and effectiveness of the policy environment assessment process and making sure that changes are made in the process if it does not yield the desired results. For example, how would the process change if it overlooked an important emerging issue or failed to act on vital new information?
- Identify, describe, and assess the process used to gather input from employees who might reasonably discover flaws in the process.
- Determine how the entity assesses its policy environment for strengths, weaknesses, opportunities, and threats.
- Determine the controls in place to ensure that information obtained from assessing the policy environment is used in the periodic review of the mission statement and strategic plan.

Review observations, interviews, documentation, and other evidence and design specific audit procedures as needed to determine if the process and/or the controls have been implemented and are functioning as designed. Depending upon the objectives of the project, these procedures may include both tests of controls and substantive tests, more information on which is found in *The Hub*, pp. 2-B-8, ff.). Possible procedures include, but are not limited to:

- Determine if any evidence of management override exists.
- Walk through the actual process, i.e., follow a transaction through the people and documents involved, and compare to the official process. Review the following information sources for background. Compare information in these documents to information included in policy environment assessment documents:

Governance structure

- enabling legislation
- duties and responsibilities of board members or commissioners
- overview of rules issued by entity (from *Texas Administrative Code*)
- legislative oversight committees for operations or budget

Reports

- two latest Legislative Appropriations Requests
- latest General Appropriations Act, including any riders
- classification turnover statistics from SAO Classification Office
- Legislative Budget Office reports
- Texas Sunset Advisory Commission reports
- Attorney General decisions or judicial rulings
- LBJ School reports or studies
- Texas Research League reports or studies
- accounting/consulting firms reports
- National Conference of State Legislatures information or reports
- National Governors Association information or reports
- Council of State Governments information or reports

Social and economic trends

- relevant changes in demography of entity's client population
- special interest, occupational, or trade groups
- print and electronic media
- Review entity reports to determine how often policy environment assessments are actually conducted and compare to entity policy, if any.
- Determine if and how the following policy environment factors were considered in developing and adjusting entity mission, goals and objectives:
 - expectation and values of major stakeholders
 - changes in the client population and demand for the entity's products or services
 - known and reasonably anticipated problems
 - turbulence of internal or external environment
 - emerging windows of opportunity

- impact of pending or proposed legislation, both state and federal
- Establish how information derived from assessment of the policy environment is communicated to employees, particularly those most reasonably affected by such information.

Review and analyze any reports used by the entity to monitor the outcome(s) of the policy environment assessment process and/or any other information available to determine if the process is actually achieving the desired management objective(s) (this module, page 1). Possible procedures include, but are not limited to:

- Analyze process reports over time for trends. For example:
 - Determine if the results of policy environment assessments change over time and if trends are being tracked and documented.
 - Determine if the information obtained from assessing the policy environment is used to modify or update the mission, goals, objectives, and outcome measures.
 - Review the results of the process used to maintain alignment of the policy environment with entity's mission, goals, objectives, and outcome measures.
- Discuss any apparently material negative or positive trends with management.
- Determine if and how management acts upon these process or trend reports and what changes, if any, were made in the process or controls as a result. Some process refinements, especially those affecting entity mission, goals, and outcome measures, may need to wait until the next appropriation cycle.

Determine causes

Determine what circumstances, if any, caused the identified weaknesses in the policy environment assessment process. Possible procedures include, but are not limited to:

- Determine if the participants in the policy environment assessment process understand the entity's mission, goals, and values and support them through management of the policy environment assessment process.
- Determine if the participants understand both the purpose of and their role in the policy environment assessment process.
- If the process occurs at multiple locations, determine the nature and scope of the communication and coordination among them.
- Determine if the relationship between the policy environment assessment process and other entity processes is clear. For example, is there coordination between the policy environment assessment process and entity legal counsel on potentially important legal issues?
- Determine if the policy environment assessment process has adequate human, dollar, time, information, and asset resources. If they appear inadequate, determine if the entity resources have been allocated according to the materiality of the policy environment assessment process relative to other entity processes.
- Determine if the entity has considered using alternative resources such as trade groups, non-profit organizations, academic institutions, other governmental entities to meet its resource needs.
- Determine if resources available to the policy environment assessment process have been allocated and used in a manner consistent with the importance of that resource to the policy environment assessment process.

Determine what internal or external constraints or barriers, if any, must be removed in order to overcome these identified weaknesses. Possible procedures include, but are not limited to:

- Review the applicable entity, state, or federal laws or regulations to determine if any of them prevent the necessary changes from being made in the process.
- Determine if any key employees are unwilling to change the process and why they are unwilling.

Determine effect

Compare the actual entity process to a recommended alternative process(es) and determine if each weakness in the entity process is material. Alternatives can be developed by using the criteria contained in this module, applying general management principles to the process, using the processes at comparable entities, etc. Materiality can be measured by comparing the dollar cost, impact on services (either quantity or quality), impact on citizens, impact on the economy, risks, etc. of the actual process to the recommended alternative process(es). Measurements can be quantitative, qualitative, or both. Possible procedures include, but are not limited to:

- Identify benchmarks (industry standards, historical internal data, other comparable entities, etc.) for the process in question and compare to actual performance. Measure the difference, if possible. Include the cost of the additional controls or changes in the process.
- Estimate the cost of the actual process and the alternative process(es) and compare.
- Estimate the quantity and/or quality of services provided by the actual process and by the alternative process(es) and compare.
- Identify the risks associated with the actual process and with the alternative process(es). Measure and compare the risks.

Develop recommendations

Develop specific recommendations to correct the weaknesses identified as material in the previous section. In developing these recommendations, consider the tailored criteria, kind of process and control weaknesses identified, causes and barriers, effects, and additional resources listed at the end of this module. Possible procedures include, but are not limited to:

- Identify alternative solutions used by other entities.
- Identify solutions for removing barriers.
- Provide general guidelines as to the objectives each solution should meet; then the entity can tailor the solution to its specific situation.
- Provide specific information, if available, on how each recommendation can be implemented.