

Transition Report: Vice-President Finance

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Introduction:

Dear Duncan Thompson,

Congratulations on your recent election victory. The position of Vice President (Finance) & Chief Financial Officer within the McMaster Students Union was easily the most challenging and diverse role I have had the privilege of serving in my professional career thus far. There is no shortage of issues within the organization to address and there are often many competing ideas as to how to solve said issues. You must serve as both a member of the Board of Directors and oversee the operations of the entire organization and as the Chief Financial Officer to report on and improve the financial stability of the organization.

This transition report will cover several key areas of the role, highlight several key pieces of technical knowledge, some key pieces of work done throughout my term, where I feel improvements can be made and some general tips to ensure your year goes smoothly. Above all else, you must build upon the work your predecessors to ensure the organization is stronger than it was handed to you to the best of your abilities. I have full confidence in your abilities and I wish you the best of luck. If you ever have any questions I will be around campus next year so please do not hesitate to contact me.

Yours Truly,

Nick Shorten

General Tips:

I've compiled a list of general tips over the course of making this document that are necessary to do well in this job. A lot of these tips may seem intuitive but if you become too stressed out they may seem like an afterthought. If you ingrain these tips into your day to day work you will likely be viewed and will be more competent and professional.

1. Gain the trust of those you interact with

- One of the key reasons the Board of Directors I worked with was successful was that people generally trusted us and were eager to work with us. I would highly suggest genuinely making an effort to earn the trust of your peers. Most of these tips revolve around this theme but you must add your own approach to this. A short list of how to do this will include:
 - a) Making a point to remember people's names and previous conversations with them
 - b) Taking peers or coworkers out for lunch or taking the time to get to know them professionally and personally
 - c) If you're meeting with someone really important make sure to learn their hobbies and interests so you can talk with them about what they're interested in so they are fully engaged
 - d) **Do not** engage in political gossip
 - e) Empower individuals especially when they approach you with a complaint
 - f) Always question how people perceive you

2. *Always* respond quickly to emails

- Coworkers, partners, associates and stakeholders will feel personally attended to and respected if you respond quickly and thoroughly. Respond even faster if a question or concern that is received is of a general negative tone though don't make this your top priority if you can't.

3. *Always* be prepared and informed for meetings

- You obviously cannot predict every question which will arise before or during a meeting. You can, though, compile a short list of everything you've been working on before a meeting to announce during Information Period and have prepared notes on issues you know will arise.
- If there are big issues that need to be addressed, prepare a report beforehand and brief the Board of Directors and the Executive Board on the issue. Sending out information beforehand enables you to receive questions and concerns before the meeting

4. *Always* ask questions and listen

- The entire organization contains people who are much more experienced than both you and I and represent very specific aspects and services the MSU is composed of. Take time to go around and listen to their concerns. They will appreciate you more and the more regularly you do this the faster you will see the bigger picture of the organization

5. *Never micromanage*

- Your role is to aid the direction of the entire organization. You will work on issues that affect several services in a unique way or that impact the organization as a whole not issues that the staff you manage are hired to do. If you do this they will feel unappreciated and alienated.
- You will be responsible for specific issues as a member of the Board of Directors. I was specifically responsible for TwlevEighty and the MUSC. It is important to remember that even regarding these issues that you must have an approach I described above

6. *Always be proactive*

- Lots of things this year will not go as planned or something may go wrong outside of what you are cognizant. If something regarding your portfolio goes sour you must be proactive and tell the SRA and/or Executive Board what has happened as soon as possible. You will lose the trust of your peers very fast and will not be able to regain it if you try to hide a mess from them.

7. *Always respect proper channels*

- If a full-time staff issue is brought to you then you must direct that individual to your General Manager their respective supervisor. If you have an issue with the University on a particular issue it is imperative you talk to the right individual to the best of your ability. This being said, do your research on who you're talking to before you talk to them.

The Budget Process:

The budget is arguably the most important document year to year in the McMaster Students Union. It is an invaluable strategic tool that is designed to reflect the goals and operational framework of the organization. I'll briefly discuss how the budget was created, primarily by the first Finance Commissioner for the 2010-2011 year, James Steels, and how I feel it can be improved.

There are countless writings on how budgets should be prepared though the model we used had a fairly straight forward composition that can be seen within many models. A budget must:

- 1) Have an accurate representation of what was done up until the present
- 2) Develop clear goals that are a part of a larger strategic direction
- 3) Layout the tactics or drivers which will get us to those goals by year end.
- 4) Ensure goals are met by monitoring throughout the year to ensure our forecast is accurate and being improved upon
- 5) Evaluate and improve at year end.

I'll briefly go through what we did this year in each one of the above steps and how I feel they can be improved. This process was repeated in making the budget for your fiscal year with softer targets set so you can establish expectations with your team.

- 1) Working in tandem with the Finance Committee and the Comptroller Maggie Gallagher we split up the services and businesses to be analyzed and reported on. Our goal was to determine where the organization was as we did not have faith in the previous budget. We determined by analyzing previous accounting statements and through conversations with managers – especially those of larger services – where money was spent and consolidated account lines where necessary. Again, our main goal at this

point was have a strong base of information to work from and develop an understanding of where the organization was headed if nothing changed.

Our first work when starting the budget primarily concerned the Capital Budget. Though we were unsure what the overarching strategic goals were for our services and the organization at this time this portion of the budget was completely missing from the one inherited. We felt it would be a good place to start and address urgent capital needs and help determine goals for our services by analyzing their larger projects. I'll go into more detail regarding the Capital Budget Process later in this document. Though it is very important to note that the Capital Budget is one with the Operating Budget but separating the two will help me explain the process better.

- 2) The outcome of determining our tactics and drivers for the larger services allowed us to specifically outline the rationale for our budget allocation and how we were expecting to achieve these goals. In some cases, very little information was provided. For our larger services we obtained our price points and key changes that were planned tied to unrecorded general strategic themes largely revolving around our organizational mandate under the MSU Constitution. We also discussed our specific strategy for at least the first semester of operations in starting September for our larger services with the expectation that conversations would occur throughout the year and that basic understanding of our operations was established for second semester. These conversations would inevitably create the new budget for the following fiscal year.
- 3) Monitoring the budget was both formal and informal. I would formally meet with managers to check up on our expectations and see where we needed to reevaluate. I would informally monitor the budget by utilizing Great Plains,

communicating informally with managers and staff and monitoring purchase orders and cheques. This process was especially important to create the new budget as without this gaze I would not have been able to know where the organization had changed and could not update the budget as necessary.

4) How you evaluate the budget can be a complex endeavour. There are methods of simply always asking questions as to why you did or did not achieve your goal and what can be done to make up for the shortfall. Yet I strongly feel more formalized methods must be put into place. I'll go through a few here and how they can be accomplished.

- a) Wage Review: Following the completion of the Full Time staff review by the consultants, you must continue this evaluation to our part-time roles. Not only is it a legal necessity to have a unified pay grid but there must be a formal and valuable process for reviewing wages.
- b) Enhanced reporting: Currently our accounting system only records departments and account codes. I strongly feel this should be altered to include an event or project #. Our current batching system makes it difficult to track purchases even on your accounting software and adding an additional code would make it easier to track purchases made for each event over time. Much of your job will be detective work in that you will be searching for information and piecing together data. Such a change to the system will allow for greater accuracy, transparency, accountability and ease of access to information.
- c) Formal Strategic Budget Evaluation: It would be apt to consider developing with the help of an external consultant a more formal

process of what has been developed. Our organization often has allergies to broad based strategic planning. However, if this process by which we build a yearly strategy through the budget is refined and further agreed upon by the organization then we can further refine the work we have done and allow flexible strategic thought within the conversations you already have constructing the budget.

We attempted to engage some strategic planning with little success as time and consensus were against us. In fact, the Executive Board even released an RFP to have external consultants build a strategic plan with us. But a process as to how the budget is made will ensure that the method by which voices are heard is agreed to as opposed to hearing all those voices at once. I think this would be a fair compromise to ensure more strategic planning is done within the organization especially year to year.

If you are considering this route, talk with your General Manager & Comptroller, Board of Directors, Finance Committee and Executive Board in that order refining your ideas as you move from one body to the next. By the time you reach the Executive Board you should have a direction to move in which may not even involve an external consultant (though I recommend one does have at least some involvement).

The Capital Budget

Capital is vital to sustain the operations of the MSU. Capital is defined in the MSU Corporate by laws as, "...items or improvements that have value over \$1000

and a useful life greater than one (2) year; repairs to existing equipment/leasehold property that do not significantly improve upon the original function of the equipment/leasehold shall not be considered Capital.” Though the bylaws state that capital includes those items purchased that will be used for over one year, the MSU uses an amortization schedule of 3, 5 and 10 years. Funds for capital are allocated from the Operating Fund and expensed under account codes 1XXX depending on the amortization schedules. I’ll briefly go over the process of taking in capital requests, creating the capital budget, what changes were made this year and what other changes I feel can be applied in the future.

The process for taking in capital requests and creating the capital budget is a multistep process. First, you must determine which capital items have yet to be purchased that were previously approved and the items which have been fully depreciated. When these two factors have been determined you must discuss with department managers whether they still intend to purchase said capital or if they will need fully depreciated items replaced. Generally speaking, it is a big bonus if we can utilize capital longer than we have it on our amortization schedule but we shouldn’t sacrifice the quality of our services.

Second, review the capital request forms and set a schedule for taking in requests with the Comptroller and the Finance Committee. Just this year we added more questions to our capital request forms (these should be in your computer folder) so you shouldn’t need to do this but you must also be comfortable with what information these forms require. Give managers at least 2 to 3 weeks to get back to you with detailed requests and another 1 to 2 weeks to create the capital budget. These requests should also be reviewed by the Finance Committee.

Third, while information is being reviewed by the Finance Committee, you must create the Capital Budget. This portion of the budget is essentially an itemized list of capital requests. It should include the following information:

- a) Item being purchased with supporting documentation hyperlinked
- b) Total cost of capital per department
- c) Total cost of capital overall
- d) Approved or not approved by the Finance Committee
- e) Amortization schedule
- f) Depreciated amount per year of this year's items
- g) Current depreciation per year per department
- h) Total depreciation
- i) Total combined of current and proposed depreciation
- j) *Also have a list of prepared of all current capital which doesn't have to be circulated

Fourth, please be aware of all the necessary procedures to get capital approved. This is outlined in Corporate By-Law 3: Finances. You must adhere to both notice periods and the proper body depending on the amount. Also, you must make two motions: one to allocate funds to the capital growth fund and one to expense funds from the capital growth fund. Please review this to avoid mistakes

Finally, I feel there is an easy way to improve how we record capital in our budgets. Our Comptroller came up with a fantastic idea to move all depreciation amounts to a single budget and remove depreciation from individual income statements. This will provide greater transparency and will be easier to navigate. Moreover, by removing noncash expenditures from income statements will make our budget more accurate to the novice reader as they may not understand the

concept of noncash expenditures. Ms. Gallagher has put together a very detailed proposal regarding this so please ask her about this as this could easily be implemented for September.

TwelvEighty

TwelvEighty is often a controversial topic to discuss and it will likely be within your role to oversee this year. Much of the financial framework you need to work within is already covered in the budget. I will however record here the two things that must be addressed this year.

First, the current management structure of TwelvEighty needs to be improved. It would not be fair to discuss full time staff issues within a public document. However, you must ensure that all aspects of the operation are being covered in an efficient manner. These include the front and back of house, club nights and marketing. We have provided TwelvEighty with a format for the summer so that you can plan for the upcoming school year.

Second, you must develop a more detailed strategy to exceed our margins. I would do this by analyzing our menu with the management team, analyze trends and develop strategies to bring in more revenue when we historically don't. Generally speaking this will focus on strategies to bring in higher volumes and lower our costs where necessary. I'll make short list here of ideas for you to get started with these conversations

- 1) TwelvEighty Lounge. (As an aside I personally would turn it into a small cafeteria to maximize seating and provide study space. I would also include vending machines with microwaveable items along with a microwave in the lounge and not Union Market to drive customers and limit staffing costs)
- 2) Lowering staffing costs below our target of 40%
- 3) Strategies to bring food costs down

- 4) Establishing a record of how we discount events for student groups
- 5) A new specials strategy
- 6) Partnerships with athletics teams
- 7) Pushing more liquor promotion on club nights

I want to emphasize again that these topics are to facilitate discussion for your management team. I would strongly suggest analyzing several different income statements from the Maitre'D software at TwelvEighty so you can highlight key financial facts during the discussion. As a final note, it is technically the General Manager who oversees the management of TwelvEighty so all questions from the staff should go through him and all ideas you have should be brought to him before being brought to the management at TwelvEighty.

Health and Dental Plans

The Health and Dental Plans were recently adjusted this year so that the fees charged to students is representative of the cost associated with the use of the service. The exact financial details of these plans can be found within the Operating Budget and the reports I wrote for the SRA and Executive Board to call a referendum. I'll briefly outline the important difference between the two plans and what I feel should be done to improve these plans.

The key distinction between the two plans is that the Dental Plan is underwritten and the Health Plan is not. The Dental Plan is underwritten so that we are not exposed to risk. Last fiscal year we were charged approximately \$99 per student while only collecting \$95 per student through a student fee levy. If the cost of the plan exceeds the amount our underwriter collects then they take the loss and a profit if the amount they collect exceeds the cost of running the plan. Through two referendums that resulted in no decision the SRA agreed to raise the amount to \$110 indexed to inflation while maintaining current coverage.

The Health Plan is not underwritten and is exposed to a tremendous amount of risk. If the cost of the Health Plan exceeds the fees collected then we are to pay amounts owed out of our reserves. This system must change. I was planning on endeavouring to obtain an underwriter this year but the delay in setting the Dental Plan fee denied me this opportunity. Luckily we have increased the fee for the Health Plan to \$55 indexed to inflation which will be enough based on calculations made in the budget.

What I strongly feel needs to be done next is to find an underwriter for the Health Plan. However, I also feel it would be prudent to have the two plans through a single provider. As such, I would begin this conversation with the General Manager and meet with our Dental Provider to see if they can provide a reasonable plan that underwrites the Health Plan and maintains the ability to opt out separately from each plan while giving a greater level of service and/or decreased cost than we have at present. If the proposal from our current provider is good I would bring the matter to the Executive Board to see if they would like to go with the plan offered or pursue an RFP. If they accept the plan have it verified by the Finance Committee but if they want an RFP then take the lead on it and construct an RFP (A good general template to start with would be the Audit RFP done during last fiscal). I outlined this plan as it minimizes the number of parties consulted while being fully transparent. The direction the Executive Board takes from the two that I've listed must be communicated to our current Health Plan provider to ensure they have a chance to respond.

I would highly suggest not pursuing an RFP simply because the difference between insurance providers is largely based on patented ideas. These ideas are likely feasible by any insurance provider which creates a competitive and delicate process. Moreover, I believe we will be able to provide a much better rate if we have both plans with one representative and/or provider and changing two plans will in one year will be that much more difficult with possibly little benefit.

The McMaster University Student Centre

The MUSC is perhaps the most important project ever pursued by the MSU. Over a decade ago it was easily the most controversial issue on campus. Students have contributed well over \$20 million since 1987 and I, quite frankly, took this project with as much dedication and seriousness as the budget. I'll discuss some key clauses in the MUSC agreement and future issues that will come up this year. A lot more background on the topic can be found within all the reports I have written on the MUSC as they summarize each issue with a fair amount of detail. I will not discuss the famous "\$1.2 million" as the final announcement, although relatively final, is up to you to make now.

The University Centre is owned and operated by the MUSC corporation and is divided up by a few different parties and controlled by the MUSC Board of Management. There are signatories – The University, MSU and MAPS – and third parties. Third party occupancy costs, which include Hospitality Services and other tenants seen on the first level and revenues received by the MUSC Corporation are utilized to lower occupancy costs for the other parties based on their space. The majority of this revenue the MUSC takes in comes from conferences, vendors and third party tenants. The function of the Board of Management is outlined in section 3.8 but generally refers to operations within the MUSC

The MSU holds a very privileged position as outlined in the MUSC agreements. As per the agreement under section 6.1 (c), "Upon the completion of the Annual MSU Levy, the MSU will thereafter pay its share of the University Centre Expenses, as referred to in subparagraph (e) hereof, through either revenue from its commercial operations or from a continued Annual MSU Levy, or any combination thereof." This clause essentially outlines that after the term loan for the MUSC is paid is only responsible to pay operating costs on its commercial operations. Specifically, the space for The Underground Media & Design, The unused Undercovers space, The House of Games and Union Market and

TwelveEighty are the only spaces the MSU is required to pay operating costs on in the Student Centre.

The University is required to pay the operating costs for the MSU non-commercial space. It is important to note that while we are required to pay for commercial space whether we use it or not, much of the MUSC is non-commercial space most notably the Health Centre in the basement. We have continued the fee to pay for MSU commercial operations of the MUSC for next year and as per the agreement have renamed it from supporting capital to supporting operations.

For the upcoming year I am fairly certain two issues will arise. First, the MUSC Task Force will finalize a new updated MUSC agreement. This group, which included myself, John McGowan, Mary Koziol and representatives from MAPS, the University and the MUSC Corporation. We were tasked with updating the MUSC agreement though it quickly turned into a financial conversation with particular emphasis on the MSU and MAPS paying more money. In the end it appears as though the only thing that will change with this document is to simply update the language and MAPS contributing a small fee every year. I would be cautious and look over any and all changes with a fine tooth comb and have it read by a lawyer. Regardless, any changes that would need to be made to this document must be approved by the SRA by a two thirds vote as per by-law 12. Finally, I believe it is likely the University will attempt to re-evaluate the definition of "commercial" under the MUSC agreement. In the broadest sense of the term many of our services are engaged in commercial operations simply by exchanging money. However, services such as the Maroons, Campus Events or even Avtek most certainly are not using revenues to earn a profit and an analysis of our financial statements make this very clear. If this debate arises I would strongly suggest compiling the necessary data to strengthen your argument. All in all, I believe the MUSC following this year will be less of a controversial issue as it was

this year for me assuming that people support the agreement that is forthcoming regarding the \$1.2 million which I believe they will be quite happy about.

The Silhouette Board of Publication

I believe the Silhouette Board of Publication has a great potential for growth under your term. As the Vice President (Finance) you will chair this committee. This committee essentially oversees the budget, printing schedule, complaints and overarching issues associated with the Silhouette operations. As chair you will call the meetings, make agendas, make sure the meetings run smoothly (chair) and take in complaints that aren't sent to the Executive Editor directly. The only thing I will discuss with the Silhouette Board of Publication is specific areas needed for improvement.

There are several key pieces of advice I have with the Silhouette Board of Publication. First, if you haven't already, call a meeting for a week to allow the Executive Editor to set the print schedule if it has not already been set. Second, call a meeting at least once every few weeks throughout the summer to talk about changes to the budget and strategies that can be adopted for the year. Third have a meeting once a month during the school year to ensure issues are taken care of as they come up as opposed to all at once. Fourth, I firmly believe that a greater effort needs to be made to increase our distribution both at McMaster, the Downtown Campus, the Burlington Campus and the Westdale/Emerson community. This could help bolster readership while bringing together the McMaster community.