Speakers

Morning
Roger Couldrey    x 24755    couldrr@mcmaster.ca
John Kearney      x 21600    cio@mcmaster.ca
Fred Hall         x 21588    hallfa@mcmaster.ca
Teal McAteer      x 23999    mcateer@mcmaster.ca
Min Basadur       x 23977    min@basadur.com
CALM Group        x 21380    harrinl@mcmaster.ca
Speakers cont’d

Afternoon
Roger Couldrey    x 24755    couldrr@mcmaster.ca
Mo Elbestawi      x 27270    vprsrch@mcmaster.ca
Cynthia Shanahan  x 24633    shanahc@mcmaster.ca
Khaled Hassanein  x 23956    hassank@mcmaster.ca
Lil Scime (Nancy) x 27464    graynan@mcmaster.ca
Tawnya Smith      x 23293    tsmith@mcmaster.ca
Financial Administrators Forum: Aligning Administration with Strategy @ McMaster

APRIL 7, 2011

Welcome
OBJECTIVES

- Foster relationships among McMaster’s financial administrators
- Promote continuing education
- Equip administrators with knowledge and motivation to help McMaster improve performance
Financial Administrators Forum:
Aligning Administration with Strategy @ McMaster

AGENDA

Morning – FUTURE STATE

- Welcome to Tomorrow: Strategy Overview & Strategic Financial Issues
- Vision 20/20 & Financial Systems Renewal
- Systems Renewal Program (ERP)
- Change Management
- CALM group Survey
- Making Change Successfully Using our Creativity
  - Breakout Groups

LUNCH

Afternoon – CURRENT STATE

- Managing Today
- Updates
- Breakout Groups
- Conclusion
Welcome to Tomorrow: Strategy Overview & Strategic Financial Issues

ROGER COULDREY – VICE PRESIDENT, ADMINISTRATION
REFINING DIRECTIONS

MISSION
At McMaster our purpose is the discovery communication and preservation of knowledge. In our teaching, research, and scholarships, we are committed to creativity, innovation and excellence. We value integrity, quality, inclusiveness and teamwork in everything we do. We inspire critical thinking, personal growth and a passion for lifelong learning. We serve the social, cultural and economic needs of our community and society.

VISION
To achieve international distinction for creativity, innovation and excellence.

3 GOALS
1. To provide an innovative and stimulating learning environment where students can prepare themselves to excel in life.
2. To achieve the next level in research results and reputation by building on existing and emerging areas of excellence.
3. To build an inclusive community with a shared purpose.
CURRENT ENVIRONMENT

Provincial Direction
- 70% participation
- On-line University
- Internationalisation
- Differentiation
- Credit Transfer (pending election)

Students
- Accessibility
- Affordability
- Teaching and learning styles
- Competition

Federal
- Commercialisation of research
- Election Platforms

Faculty
- Competition
OUR STRATEGIC DISCUSSIONS

- Longevity of the existing mission, vision and goals
- Principles

Areas of focus emerging:
- Quality of learning: what it means to be a student at McMaster
- Mohawk collaborations
- Community: experiential learning and involvement
- Internationalism: what it means to McMaster and the importance of research
- Differentiation: our approach
- Teamwork and employee engagement
STRATEGIC FINANCIAL ISSUES

1. Inflationary Costs
   - Responsible bargaining by all groups
   - Responsible departmental budgeting
   - New budget model

2. Tuition Fee pressures
   - Tuition framework through 2011/12
   - Election Issue

3. Provincial Operating Grants
   - 2011 Provincial Budget: 40,000 new spaces
   - Impact on quality

4. Capital Planning
   - 2011 Capital Plan
   - Government Relations
   - Capital funding plan
   - Improved (internal) discipline
STRATEGIC FINANCIAL ISSUES

5. Pension Plan Deficits - Solvency relief applications
   - Fully costed into operating budgets

6. Post-retirement Benefits - Funding plan
   - Election issue

7. Systems - $5 million per year

8. Adequacy of Staffing - Investment in technology
   - Policy & process reviews:
     standardization & simplification
   - Priority setting
VISION 2020 & Financial Systems Renewal

Technology Strategic Directions
Supporting McMaster's Academic, Research & Administrative Mission

JOHN KEARNEY – CHIEF INFORMATION OFFICER
Table of Contents

- Introduction
- Background
- The Roadmap
- Strategic Directions & Conclusion
- Gartner Report
- Systems Renewal Program
- Next Steps
Introduction

Demands for technology solutions continue to increase, with no signs of slowing.

A focus on how technology can assist the administrative, academic and research mission is needed.

Solid technology foundations to support future growth in a sustainable manner is the goal.

Hence, Strategic Directions…
Background

- In 2008, $1.8m required to keep 30+ year old systems running
- McMaster is the last of the G13 without an ERP type system for Student, Finance, and Research Accounting
- No central repository exists for institutional data and reporting
- Lack of web strategy effects our public face (www.mcmaster.ca) and results in inefficiencies (limited self-service options)
- Minimal attention to evolving / emerging technologies
- Legacy skills not keeping pace with changing technologies
- Lack of strategic focus regarding technology investment and decision-making
The Roadmap

-current Practice:
- Legacy systems lacking integration
- Silo approach to decision-making
- Data distributed and dispersed
- Limited ability to provide or recovery critical services in times of uncertainty
- Proliferation of standalone solutions
- Islands of technology

Future State:
- Fully integrated, supported, best practice solutions
- Formalized, representative approach to decision-making
- Central repository of core institutional data incorporating data integrity, security and stewardship
- Collaborative approach to requirements and solutions development
- Institutional standards
Strategic Directions

Five essential areas where attention should be directed to achieve the greatest results:

- SD1: Systems Renewal and Data Integration
- SD2: Renewed Focus on Service Delivery
- SD3: Modern and Simplified Infrastructure
- SD4: A Hybrid Model Supporting Cooperation
- SD5: Technology Risk Mitigation Practices
Change Management

- Successful change involves a smooth evolution, not a revolution
- Accomplished by ensuring everyone affected by the change has an opportunity to be consulted
- Caveat: there is a difference between change and progress
  - Change involves something becoming different
  - Progress involves a judgment that a change is moving in a desirable direction
Conclusion

Vision 2020 is a framework for the future, predicated upon assumptions that:

- Status quo is simply no longer an option
- Success is dependent on a spirit of collaboration

The benefits of Vision 2020’s five strategic directions are:

- Applications & services with a clear relationship to the mission of the University
- A reduction in the number of technologies, core systems and applications in use
- Eliminate duplication of services and improve service performance
- Permit early adoption of emerging technologies
The Gartner Report

Business Case Development for Systems Renewal
Gartner Report

- Business Case development occurred between February – June, 2010

- Gartner was engaged to work with the staff and stakeholders of the University, lead an investigation into the opportunities that are available and then report on the findings.
Objectives of the Engagement

The key objectives that provided the overall focus of the engagement:

• Identify and clearly document the goals and principles of the Program.

• Conduct a University readiness assessment prior to McMaster moving forward with the Systems Renewal Program.

• Help define the scope of the Program.

• Define and determine the options available to McMaster to replace or extend the current SIS, FIS and Research Administration systems.
Key Recommendations

- Master should take an ERP solution approach to implementing the Systems Renewal Program.
- This approach is based on requirements for the full range of functionality required for the Systems Renewal Program and for out-of-scope functionality that may be required in the future.
- This option allows for:
  - Open-source solutions to be proposed by vendors so long as they are full-suite solutions.
  - Vendors to propose integrated solutions that include best-of-breed products to fill gaps in a larger ERP suite.
Plan to implement major modules in the following order:

• Student (target year 1 and 2)
• Finance (including elements of Research Finance and Reporting; target year 2 and 3)
• Research (target year 3 and 4)

There may be partial exceptions to this process if it is determined that existing applications need to be replaced prior to where they would fit into the overall program sequence.
Key Resources

- **Program Manager** – Ideally on-board before the vendor selection process, or even in time to participate in the Program Charter Development.
- **Organizational Change Management (OCM) Lead**
- **Communications Lead**
- **Governance Structure** – Executive Sponsorship, Steering Committee, Advisory Committees, SME’s, Working Groups
Goals and Principles

The overall mission of the Systems Renewal Program is to:

Implement an integrated enterprise solution to provide core systems functionality that reduces risks, improves efficiency and effectiveness, implements effective internal controls, enables better management of the University and improves the stakeholder experience.
Goals

The Systems Renewal Program goals are:

• 1. Implement a student administration solution.
• 2. Implement a finance administration solution.
• 3. Implement a research administration solution.
• 4. Integrate and consolidate data.
• 5. Implement comprehensive reporting capabilities.
• 6. Implement flexible workflow capabilities.
• 7. Implement a solution that meets audit requirements.
• 8. Move onto a current technology architecture.
• 9. Ensure capability of the solution to leverage strong HR functionality that can be implemented in the longer-term.
The Systems Renewal Program principles are:

1. Do not custom develop a solution.
2. Minimal customizations will be made to the solution implemented.
3. Processes will be modified to become simpler and more consistent across the University.
4. Project risk must be minimized and managed.
5. Strong scope and expectations management.
6. University stakeholders will actively participate in all phases of the solution implementation.
7. Organizational Change Management will be proactively implemented throughout the life of the project.
Principles

• 8. Data is owned by the University.
• 9. Data is a valuable resource and must be maintained and accessible.
• 10. Technical foundations for new applications must be sustainable.
• 11. The eventual solution must be owned by the functional stakeholders.
• 12. The selected solution should enable the eventual implementation of self-service functionality.
Next Steps

- Comprehensive requirements definition and scope development
- Complete the program governance structure
- Issue the RFP for both software vendor selection and system integrator
Comments or Questions?

Thank You – John Kearney, CIO

Email: cio@mcmaster.ca
Phone: x21600
Website: www.mcmaster.ca/uts/staff/johnkearney
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Systems Renewal Program (ERP)

DR. FRED HALL, CHAIR, SYSTEMS RENEWAL STEERING COMMITTEE

&

LINDA ELLIOT, PROGRAM DIRECTOR, SYSTEM RENEWAL
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CHANGE MANAGEMENT
@ McMaster

DR. TEAL McATEER
ASSOCIATE PROFESSOR, DEGROOTE SCHOOL OF BUSINESS
CHANGE ADVISOR AT MCMASTER
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Aligning Administration with Strategy @ McMaster

Morning Break
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CALM PROJECT TEAM SURVEY

- Training and access to information for administrative processes
- Attempting to identify gaps and inefficiencies
  - What do you need? How would you like to receive information and training?
- We will compile your responses and report to Sr. Mgmt with recommendations

Thank you for your time!
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Making Change Successfully Using our Creativity

Dr. Min Basadur, Professor Emeritus and President, Basadur Applied Creativity
Characteristics of an Effective Organization
Adaptability

- Anticipating new problems, trends, opportunities
- Pro-actively seeking new methods and technologies
- Deliberately changing routines
- Disrupting environments ahead of time
- Prompt acceptance of new ideas
- Acceptance across the whole organization
Typical Organizations

Many people say that these companies are good examples of the 3 characteristics:

- Flexibility
- Efficiency
- Adaptability

- Maple Leaf
- Toyota
- 3M, Apple
Adaptability Requires Different Thinking Skills

Problem Finding is the key

Innovative Organizations do not wait for problems.
They find them!

They Deliberately Drive Change!
Problem Finding Cultures

- Toshiba
- Japanese Employee Suggestion Systems
Problem Finding Cultures

Toshiba

- New Scientists and Engineers
Japanese World Class Employee Suggestion Systems

- Not optional

- Golden eggs

- Natural work teams
  - find, solve and implement

- Motivation, group interaction, job satisfaction

- Top down impetus; strategic alignment
Nippondenso Work Team Example

problems solutions actions
Today’s organizations must deal with complex problems requiring creativity and team work… much more so than in the past
A System

Innovative Results =

Content +
Process +
Process Skills +
Tools +
Style
Innovative Results = Content + Process + Process Skills + Style + Tools

Skills

Create Options
No Judgment
No Logic
- Relax
- Quantity
- Stream of options
- Radical options
- Think in pictures
- Build onto fragments

Evaluate Options
Yes Judgment
Yes Logic
- Clarify meanings
- Use relevant criteria
- Focus on a few
- Consider risky options
- Modify and refine
- Move toward action
Let’s Practice Diverging!

Here’s your challenge:

How might we attract more people to vacation in Hamilton in the winter time?

Jot down some ideas!
Killer Phrases

- A good idea, but....
- Against company policy.
- All right in theory.
- Be practical.
- Costs too much.
- Don’t start anything yet.
- It needs more study.
- It’s not budgeted.
- It’s not good enough.
- It’s not part of your job.
- Let’s make a survey first.
- Let’s sit on it for a while.
- That’s not our problem.
- The boss won’t go for it.
- The old timers won’t use it.
- Too hard to administer.
- We have been doing it this way for a long time and it works.
- Why hasn’t someone else suggested it before if it’s such a good idea?
- Ahead of the times.
- Let’s discuss it.
- Let’s form a committee.
- We’ve never done it that way.
- Who else has tried it?

Killer Phrases stop innovative thinking
That’s what happens when we mix divergent thought with convergent thought!
Innovative Results System

Innovative Results = Content + Process + Process Skills + Style + Tools

- No Judgment, No Logic
  - Relax
  - Quantity
  - Stream of options
  - Radical options
  - Think in pictures
  - Build onto fragments

- Yes Judgment, Yes Logic
  - Clarify meanings
  - Use relevant criteria
  - Focus on a few
  - Consider risky options
  - Modify and refine
  - Move toward action

Deferral of Judgment
Separate divergent and convergent thinking

Diverge > Converge
People in Top Organizations are Skilled in Turning Obstacles into Challenges

Innovative Results = Content + Process + Process Skills + Style + Tools

A tool for Problem Definition

- We can’t because...
- We don’t have any others...
- The bulb burned out...
- It would cost too much...
- It’s not on our list...
- We don’t do it that way here...

How might we…?
Adaptability Process

Innovative Results

= 

Content

+ 

Process

+ 

Process Skills

+ 

Style

+ 

Tools
Incomplete Process

Problem → Diverge → Converge → Solution

Problem Solving Only
Before You do Problem Solving you must do Problem Finding
Still an Incomplete Process

Problem

Diverge > Converge

Evaluate Yes Judgment Yes Logic

No Logic

Diverge > Converge

Problem

Solution
Unless you put the Solution into Action, the Process is still incomplete
Complete Process

Problem

Problem

Solution

Solution

Action

Problem Solution
The Process is Circular

1. Problem Formulation
2. Solution Formulation
3. Solution Implementation

The cycle repeats as indicated by the arrows.
Why Teamwork is Often Uncreative and Time Consuming

- No common process for problem solving
- Impatient
- Overly focused on solutions
- Mixing thinking skills
How might we get started?

Let’s apply our creative thinking skills in our teams!

Let’s find some “golden eggs”!
Here’s what to do in your team.

Please use your facilitators to help you:

First: Use divergent thinking:
Generate a list of the financial tasks and activities that you execute in your jobs.

Second: Use convergent thinking:
Evaluate and select which of these financial tasks and activities take the most time. Choose your top three or four and prioritize them.

Third: Think about your selections over lunch because we will be doing more work with them this afternoon.
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BREAKOUT GROUPS
Financial Administrators Forum:
Aligning Administration with Strategy @ McMaster

LUNCH
MANAGING TODAY

ROGER COULDREY – VICE PRESIDENT, ADMINISTRATION
DID YOU KNOW?

RESEARCH

DR. MO ELBESTAWI – VICE PRESIDENT, Research & International Affairs
Research Mission

1) Rank consistently among the top 3 Canadian universities in research excellence and intensity

2) New partnerships:
   - strategic research initiatives
   - knowledge and technology transfer
   - economic development (locally, nationally and internationally)

3) International collaborations:
   - create new relationships
   - strengthen linkages already established
   - rank among top 3 in Canada

4) Progressive, professional, central research support services

5) Communicated and celebrate our research initiatives and successes to the public at large
Research Administration @ McMaster

- Support for Researchers:
  - Health Sciences Research Finance
  - McMaster Industry Liaison Office (MILO)
  - McMaster Research Finance
  - Research Office for Administration, Development, and Support (ROADS)
Expenditures by Fund
2010/11 Budget
McMaster Sponsored Research Income by Fund

Excluding Affiliated Hospitals (approximately $222M)

- Federal: 55%
- Provincial/Municipal: 16%
- Foreign: 8%
- Corporate: 11%
- NOT-FOR-PROFIT: 7%
- Other: 3%

Source: Canadian Association of University Business Officers (CAUBO)
McMaster Sponsored Research Income

Source: Canadian Association of University Business Officers (CAUBO)
Total Sponsored Research Income
McMaster 6th in Canada

Source: Research Infosource Inc., November 2010 (includes affiliates)
Research Funding – McMaster CFI Awards

*McMaster 5th in Canada*

CFI, MRI & Other Partners $93 M

63% success rate ($$)

50% success rate (#)
DID YOU KNOW?

PROCUREMENT &

TRAVEL & EXPENSE REPORTS

CYNTHIA SHANAHAN – DIRECTOR, Purchasing Resources
Did you know?

Bill 122 legislated 26 mandatory requirements for Procurement effective April 1st?
Bill 122 Procurement Directive Founded Upon:

- Agreement on Internal Trade – AIT (Chapter 5)
- Ontario/Quebec Trade Agreement
- Ontario Gov’t Supply Chain Guidelines
- Laws of Competitive Bidding
Do you know?

What policies/procedures have changed effective April 1\textsuperscript{st} due to Bill 122?
Consultants:

All consulting services >$0 must be competitively bid or seek single source approval in accordance with the AIT exemptions from:

- $0 - $999,999
  President of the University
- >$1,000,000
  Board of Governors
Consulting Services

“Consultant” means a person or entity that under an agreement, other than an employment agreement, under a fee-for-service arrangement, provides expert or strategic advice and related services for consideration and decision-making, usually in the form of a report.

“Contractor/Professional Service” is a person or entity retained under a fee-for-service arrangement, that is not an employment agreement, to perform specific tasks under a client’s direction for a limited period of time.
Procurement Policies & Procedures

Competitive Quotes:

$10,000 - $50,000 3 written quotes are required
(was 2 quotes)
Procurement Policies & Procedures

Contract Management

• *Procurement and the resulting contracts must be managed responsibly & effectively.*

• *Payments must be in accordance with provisions of contract.*

• *All invoices must contain detailed information sufficient to warrant payment.*
Procurement Policies & Procedures

Did you know?

High Score Wins!
Low Bid

Low bid $\neq$ Award

Best Value $= Award$

(high score wins)
Did you know?

Bill 122 legislated expense requirements effective April 1st?
Accountability Framework

- Ensure appropriate governance & everyone understands the authority for approvals
Travel Policies & Procedures

Did you know?

That is why we have “1 up” approval
Posting

Expense rules must be posted on website
Travel Policies & Procedures

Did you know?

Policies are found at:

http://www.mcmaster.ca/bms/BMS_Policies_Procedures.htm
Alcohol

Expense rules must provide direction on the circumstances in which alcohol can be claimed and reimbursed.
Travel Policies & Procedures

Did you know?

Alcoholic beverages are considered acceptable hospitality expenditures where:

a) Consumption is nominal or moderate; and

b) Permitted under the terms of the funding source.

Faculty and staff are required to exercise sound judgement in this regard.
Bill 122 Expense Directive

Do you know the definition of “hospitality”?
Travel Policies & Procedures

*Hospitality* is the provision of food, beverage, accommodation, transportation and other amenities to people who are **NOT** engaged to work for:

- McMaster University, or
- Any Ontario government ministries or agencies covered by the OPS Travel, Meal and Hospitality Expenses Directive.
Internal Meetings/Staff Events are NOT considered “hospitality”

(decisions to host should be made with due consideration for the prudent & responsible use of public funds)
Did you know?

In **NO** circumstances can expenses* be considered allowable expenses for consultants and contractors or in any contract between McMaster University and a consultant or contractor.

*includes hospitality, incidental or food*
Travel Policies & Procedures

Did you know?

Top Person must submit claim
DID YOU KNOW?

BUDGET MODEL TASK FORCE
Overview & Update

DR. KHALED HASSANEIN, Associate Professor, Chair of Budget Model Task Force
BMTF II Mandate

Budget Model Task Force I (BMTF) provided the following mandate for Task Force II (BMTF II):

“The overall aim of this effort is to take the BMTF I report recommendations and move forward to develop a version of an activity-based budget system that fully supports and enhances McMaster’s academic mission.”
BMTF II Membership & Advisory Committee

- Barb Campbell (Office of the Provost)
- Iain Clarkson – Budget Analyst
- Linda Coslovi (Science)
- Ross Gardner (Health Sciences)
- Brooke Gordon (School of Graduate Studies)
- Khaled Hassanein – Chair
- Kim MacDonald – Project Manager
- Mary Law (University Budget Committee)
- Ying Liu (IRA)
- John McKay (Advancement)
- Barb McKenna (ORS)
- Karen Menard (IRA)
- Lou Mitton (Financial Services)
- Gina Robinson (Student Services)
- Administrative Assistant

BMTFII provides updates to an executive committee of Vice-Presidents and Deans for information and feedback as appropriate milestones are reached.
Principles developed by Task Force I:

- Promote transparency, trust and engagement
- Assure financial responsibility, accountability and fairness
- Advance the efficient use of physical and human resources
- Have predictability and stability
- Enable innovation, creativity and change
- Assign fiscal and academic responsibility to the appropriate levels
- Build the student learning experience both inside and outside the classroom
- Enable rapid response to opportunities
- Ensure the sustainability of areas of existing and emerging excellence in keeping with academic priorities
Additional guidelines by Task Force II:

- Supports and enhances the academic mission (research and teaching)
- Avoid the creation of “silos” and promote interfaculty / department cooperation
- Keep things simple, not too many variables
- Utilize the concept of “materiality” – spend time on large items, set a limit under which the item will not form part of the components of a budget model
- Simple to administer with
Structure of the Proposed Model

**Revenue**
- Tuition
  - UG Tuition
  - Grad Tuition
- MTCU Grants
  - BOG
  - UG Accessibility & Grad Expansion
  - Quality
  - Performance
  - Nursing / UG Med Expansion / Clinical
  - Special Purpose
  - Special Access
  - Disability Access
  - OGSST (non-operating)
- Indirect Cost of Research
  - FICR
  - CRC
  - ROIE
  - ORF-IC
  - ERA and other
- Other Income

**Activity Units**
- Faculties
  - Business
  - Engineering
  - FHS
  - Humanity
  - Science
  - Social Science
  - Interdisciplinary
- Other?
  - Research Institutes
  - Ancillaries

**Occupancy Cost**
- Utilities
- Maintenance & Custodial

**Admin / Service Units (Overhead)**
- Net Expense from Non-Activity Units
  - Administration
  - VP Research
  - IT
  - Student Affairs
- Scholarships

**University Fund**
- Other Direct Expenses
  - Salaries and Benefits
  - Other Divisional Expenses
Progress-to-date

Accomplishments
• Completed review of revenue distribution options and made recommendations on a methodology for each revenue type.
• Completed review of allocation methodology for occupancy costs and Admin/Service units costs. Recommendations to be presented to Advisory Committee by end of April.

Current/Future discussions include
•Propose appropriate governance mechanism for new model.
•BMTF II is on target to implement a shadow budget during 2011/12 and expects to further refine the new budget model and process in 2012/13 with possible transition to the new budget model in 2013/14.
•Discuss systems/tools that will be required upon implementation.
•Discuss change management plan required for transitioning to new model.
STRETCH!
DID YOU KNOW?

PENSION

LILIAN SCIME, former Assistant Vice-President, Administration – McMaster
current Vice-President, Corporate Services – Halton Healthcare
Agenda

- What is the pension program at Mac?
- How does the funding work?
- What impact has the recession had?
- What is the ‘deficit’? How is it calculated?
- Relative to other financial issues at Mac is it big?
- What are the ‘levers’ that the University has to manage this problem?
- What is being done?
McMaster University’s Pension Benefit Programs

Defined Benefit Registered Pension Plans for salaried employees (Salary Plan 2000 and the Original Plan)
- Closed to new membership for management (TMG), senior academic and administrative officers (SAAO) and employees of Affiliates
- Currently still open to new membership for faculty (MUFA)
- Currently still open to new membership for CAW, Unit 1 (Support Staff) on a reduced benefit basis

Defined Benefit Registered Pension Plan for hourly employees (Hourly Plan)
- Closed to new membership

Group RRSP introduced in 2006 for some newer employees
- New Hourly, TMG and SAAO and employees of Affiliates
Pension Funding at Its Core

– Only two sources of funding to pay pension benefits promised by a Pension Plan

- Member and Employer Contributions
- Investment Income

- THE ASSET
  Today’s dollars

- THE LIABILITY
  Tomorrow’s cost

• Not an actuarial assumption to be found above!
Pension Liability/Asset Relationship

<table>
<thead>
<tr>
<th>Growth in Liabilities From Year to Year</th>
<th>Growth in Assets From Year to Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities at beginning of year (representing discounted present value of pension benefits earned in respect of service up to the valuation date)</td>
<td>Value of pension fund assets at beginning of year</td>
</tr>
<tr>
<td>Plus</td>
<td>Plus</td>
</tr>
<tr>
<td>Interest on liabilities at rate used to discount the liabilities</td>
<td>Rate of return on pension fund assets</td>
</tr>
<tr>
<td>Plus</td>
<td>Plus</td>
</tr>
<tr>
<td>New liability for benefits earned by members in the year (current service)</td>
<td>Contributions made by members and University</td>
</tr>
<tr>
<td>Less</td>
<td>Less</td>
</tr>
<tr>
<td>Pension payments and lump-sum transfers</td>
<td>Pension payments, lump-sum transfers, fees and expenses</td>
</tr>
</tbody>
</table>
### Pension Funding Risk

<table>
<thead>
<tr>
<th>Long-Term Risk</th>
<th>Short-Term Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>➢ Expected investment return that was used to set the funding balance between contributions and investment income is not achieved</td>
<td>➢ Short-term volatility of investment return could generate unfunded liabilities which in turn generates special payments</td>
</tr>
<tr>
<td>➢ Higher pension benefits than expected due to levels of inflation and salary increases, and more pension benefits than expected due to retirement ages and retiree longevity</td>
<td>➢ Short-term fluctuations in inflation and salary increases, retirement ages and mortality rates could generate unfunded liabilities which in turn generate special payments</td>
</tr>
</tbody>
</table>

How much of today’s dollars do I need to cover tomorrow’s payments?
Economic Uncertainty – Financial Markets

S&P TSX Composite Index – 3 year trend
Measuring the Financial Health of the Plan

- The Financial Health of the Plan is measured by 3 Types of Actuarial Valuations
  - Actuarial determination of the relationship between plan assets and liabilities

- Going Concern Valuation:
  - Values assets and liabilities assuming that the plan will be maintained indefinitely

- Solvency Valuation:
  - Values assets and liabilities as though the plan were wound up and settled on the valuation date

- Wind Up Valuation:
  - Values assets & liabilities at their Liquidation Value
Solvency Funded Status—Then and Now

<table>
<thead>
<tr>
<th>July 1, 1999</th>
<th>July 1, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus</td>
<td>Deficit</td>
</tr>
<tr>
<td>$915</td>
<td>$350</td>
</tr>
<tr>
<td>$320</td>
<td>$950</td>
</tr>
</tbody>
</table>

$1,300

154% 73%

Aon Hewitt
2011-14 Average Annual Total Pension Payment of $70 m is...

31% of Annual MTCU Funding

1.6 times the amount spent on Student Support and Scholarships

Equivalent to the cost of 580 Faculty Members

2.3 times the annual current service cost
Pension Plan Governance

- Assumptions and Methods
- Plan Design
- Funding Policy
- Investment Policy

Risk Management
Amend Plan Design

- Close Pension Plans to new enrolment and offer a Group RRSP to new hires

- Revise Defined Benefit Plan for new CAW, Unit 1 Employees
  - Increase affordability

- Negotiate changes in plan design in 2006 to reduce cost
Amend Plan Design (continued)

- Pension indexing is tied to investment performance after fees in both plans.
- Indexing to a maximum of CPI is provided when the 5-year average net investment return exceeds:
  - 4.5% - Salaried Plan
  - 5.0% - New CAW entrants to Salaried Plan
  - 6.0% - Hourly Plan

<table>
<thead>
<tr>
<th>Increase at:</th>
<th>Salaried Plans</th>
<th>Hourly Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1, 2010</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Jan 1, 2009</td>
<td>2.2% + 1.5%*</td>
<td>1.6%</td>
</tr>
<tr>
<td>Jan 1, 2008</td>
<td>1.7% + 2.3%*</td>
<td>1.24%</td>
</tr>
<tr>
<td>Jan 1, 2007</td>
<td>0.9%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Jan 1, 2006</td>
<td>0.2%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

* Supplemental Increase
Amend Funding Policy

Increase Employee Pension Contribution rates to attain greater employee cost sharing of pension liability:

- Employee contribution rates to the Defined Benefit Pension Plans were historically set at 3.5% up to YMPE plus 5.0% in excess of YMPE.
- Changes have been introduced for the majority of employee groups resulting in increased employee contribution rates of 6.5% up to YMPE plus 8.75% in excess of YMPE.
- For most employees in the salary pension plan, these rates will be achieved by 2012, while for employees in the hourly groups, the rates will be achieved by 2014.

Increase department charges to cover the required employer contributions

- Phase in increases over time.
Salaried Pension Plan
Employee Cost Sharing - Change in Trajectory

McMaster (ER) Current Service Cost as a % of Employee (EE) Contributions
Salaried Plan 2000

First Increase in EE Rates
Amend Funding Time Frame
Impact of Solvency Exemption at 6.5% Returns (estimates for illustrative purposes)

Salaried Pension Plan - Total Required Payments
With and Without Solvency Exemption
Solvency Exemption Smooths out Payments and Allows Time for Market Recovery

$000's

Without Solvency Exemption
With Solvency Exemption
Economic Uncertainty – Pension Impact on McMaster

- **Expected Cash Payments** represents the estimated net amounts that will be required to be sent to Mellon (pension custodian) if the University gets its Stage 1 and Stage 2 Solvency relief as planned.

- **Amount funded through departments** is equivalent to the amounts collected via the employers’ share which is based on multipliers such as 2.7, 2.8, 2.9 and 3.0 X employees’ contribution. These multipliers are also used in Research departments.

- **Expected Accounting Expense** reflects the expense that will be recorded in the audited financial statements, which varies according to the assumptions used in the accounting valuation and increases more slowly than either of the other two numbers.

### Hourly and Salary Pension Estimates ($M)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Expected Cash Payments (after relief)</td>
<td>44,297</td>
<td>49,141</td>
<td>63,568</td>
<td>65,683</td>
<td>73,982</td>
</tr>
<tr>
<td>Amount funded through departments</td>
<td>45,479</td>
<td>52,826</td>
<td>59,620</td>
<td>63,445</td>
<td>73,526</td>
</tr>
<tr>
<td>Expected Accounting Expense</td>
<td>51,119</td>
<td>50,872</td>
<td>50,750</td>
<td>53,014</td>
<td>56,241</td>
</tr>
</tbody>
</table>
DID YOU KNOW?

FRAUD DETECTION & REPORTING

TAWNYA SMITH, SENIOR MANAGER, Internal Audit
Fraud Detection & Reporting

What is Fraud?

The ACFE defines fraud as:

- “Any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetuator achieving a gain”

Why does Fraud Occur?

- Opportunity
- Incentives/Pressures
- Attitude/Rationalization
Fraud Detection & Reporting

Did you know?

2010 CAUBO survey of Internal Audit Directors:

- 77% reported at least one instance of fraud > $5,000

 mạng Top three types of fraud

1. Billings including falsified invoices, personal purchases
2. Corruption including conflict of interest
3. Skimming – stealing funds before recorded
Fraud Detection & Reporting

Why is this important to you as Financial Administrators at McMaster?

- most intimately involved in the processes on a daily basis
- **Approximately 55% of all fraud and/or inappropriate activity is first detected and reported through tips by individuals such as yourselves**
Fraud Detection & Reporting

What has McMaster done in attempts to control, prevent, detect and report Fraud?

- Education – prevention, detection and reporting
- “Tone at the top”
- Whistleblower Hotline
  - Anonymous & Confidential
Let’s go back into our teams!

For each of your selected tasks and activities that take the most time (in priority order)

First: use **divergent** thinking
Generate ideas for “how might we do this task or activity with less time or effort or both?”

Second: use **convergent** thinking
Evaluate and select the best ideas that can be implemented with existing resources.

Highlight your very best 2 ideas as recommendations for each prioritized task or activity.
Financial Administrators Forum:
Aligning Administration with Strategy @ McMaster

AFTERNOON BREAK
&
BREAKOUT GROUPS
Financial Administrators Forum: Aligning Administration with Strategy @ McMaster

Conference Achievements/Outcomes & Closing Remarks
OBJECTIVES

- Foster relationships among McMaster’s financial administrators
- Promote continuing education
- Equip administrators with knowledge and motivation to help McMaster improve performance
Financial Administrators Forum:
Aligning Administration with Strategy @ McMaster

Thank you for attending!

Please hand in your evaluations