

# American Society of Mechanical Engineers

## Council on Engineering

### Point Paper On:

## **Key Budget Issues Associated with Transition to Full Cost Accounting as Part of the Continuity and Change Initiative**

**Overall Philosophy:** As the Continuity and Change Initiative within the ASME is reviewed by the membership and authorized for implementation by the Board of Governors, the Vice Presidents of the Council on Engineering (COE) are issuing this document as a means of identifying to the ASME Board of Governors the issues that are creating operational issues within the ASME and that if left as status-quo would inhibit growth.. The intent is to outline the actions that are being recommended to ensure that the overall mission of the ASME – the premier organization for promoting the art, science, and practice of mechanical and multidisciplinary engineering and allied sciences throughout the world – is enabled via a sound financial cost accounting system and prudent fiscal policies. The system will reward the entrepreneurial efforts of the ASME that lead to products and services and concurrently allow for the development of new enterprises in high potential areas of ASME activity.

**Action:** The ASME President has established a working group to address the recommended criteria for the treatment of operating budgets for various forms of ASME operating units in the new Continuity and Change Model. The ultimate goal is a standard method to be applied to all Engineering and Technology Enterprises. However, it is recognized that new initiatives may need to operate differently until fiscal self-sustainability is attained. As such, the goal is to develop a system that provides for full accountability of all operations with appropriate taxation to allow for the rapid response and support of new and innovative activities.

**Introduction:** The current accounting system and policy does not provide sufficient information to Divisions and other operating groups for them to understand their financial situation and identify areas for strategic growth. This requires the understanding of the entire revenue stream for a unit which needs to be clearly disseminated. The following issues represent the primary issues at this time that the COE must address in order to move forward towards full cost accounting and for units to be treated on a consistent basis.

**Dues:** In the new model for ASME there needs to be recognition of dues income to certain operating units. In the past, dues income flowed to the Council of Member Affairs and to the General Fund for expense activities that had no source of revenue. An equitable portion of member dues (from either the current or a future dues model) should be available to Engineering and Technology Enterprises to fund activities for which there is no revenue source available to fund the activity.

**Journals:** Several of the current Divisions contribute materially to the publication of Journals as their key technical contribution to the ASME. The current accounting system does not provide the cost and revenue for this activity in the same account. A new Policy is needed which addresses the treatment of Journals in the Engineering and Technology Enterprises area.

**ASME Overhead Allocations:** Models have been presented which demonstrate the impact of full cost accounting. In these pro-forma models, the amount of overhead that is charged varies widely. The fundamental reason for this variation is that there has not been any need in the past for detailed allocation of overhead charges to specific divisions. A new Policy as part of Continuity and Change implementation is recommended to standardize this practice.

**ASME Staff Support:** In discussing the budget system with current divisional leadership it has become apparent that there is not a consistent policy and practice that deals with how direct staff support is being charged. Many argue that this is leading to decisions that may not be the best for the ASME as a whole. It is recommended that one overall, concise policy be developed for the application of full cost accounting to the Engineering and Technology Enterprise area. There will likely have to be a tiered approach to this which recognizes that size of the operating unit and its financial status (i.e. a special interest group requires a different level of support than does an Institute).

**ME Magazine:** The budget for this members benefit publication currently resides in the Council on Engineering. In the new Continuity and Change model, this activity should be dealt with as a profit center which rewards the actions taken by the staff of this magazine to increase its impact on the mechanical engineering professions and its financial viability.

**Custodial Funds:** The policy and practice of custodial fund management within the current five ASME Councils is not consistent. Additionally, the current policy does not engender a spirit of entrepreneurial thinking and actions that is vital for the ASME to grow. Coupled with these two issues is the fact that custodial funds are classified as restricted use funds within the ASME. These funds are not available for ASME use. These funds earn interest which accrues to the custodial fund holder. There is a desire to have these funds available for investment use by the ASME from time to time with an appropriate return to the custodial fund.

There is also a need to allow those ASME activities which generate revenue to be rewarded for the risk that is inherent in these projects. The Engineering and Technology Unit that is responsible for the revenue will be rewarded for the performance in a measurable manner.

