

*U.S. DEPARTMENT OF COMMERCE*  
*Office of Inspector General*

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*PATENT AND  
TRADEMARK OFFICE*

*Financial Statements  
Fiscal Year 1997*

*Audit Report No. FSD-9755-8-0001/March 1998*

**PUBLIC  
RELEASE**

*Office of Audits, Financial Statements Audit Division*



**UNITED STATES DEPARTMENT OF COMMERCE**  
**The Inspector General**  
Washington, D.C. 20230

March 20, 1998

MEMORANDUM FOR: Bruce A. Lehman  
Assistant Secretary of Commerce and  
Commissioner of Patents and Trademarks

FROM:   
Johnnie E. Frazier  
Acting Inspector General

SUBJECT: Report on the Audit of PTO's Financial Statements as of  
September 30, 1997 and 1996  
Audit Report No. FSD-9755-8-0001

Attached is the final report relating to our audit of the financial statements of the Patent and Trademark Office (PTO) as of September 30, 1997 and 1996. Our report includes three components: Report on Financial Statements, Report on Internal Control Structure, and Report on Compliance with Laws and Regulations. An executive summary is presented on page i.

This was the fifth audit of PTO under the requirements of the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994. We have issued an unqualified opinion on PTO's fiscal year 1997 Principal Statements. Our findings and recommendations have been reviewed with your staff during the audit, and we have incorporated their comments, as appropriate. Based on our mutual agreement, we are issuing this report as final.

In our Report on Internal Control Structure, we make recommendations to address the three reportable conditions that we identified surrounding PTO's internal controls. We commend PTO on actions taken during the fiscal year to strengthen its internal controls, which resulted in categorizing two prior year material weaknesses as reportable conditions. This progress can be attributed to the hiring of additional staff, the establishment of the Financial Reporting and Analysis Division within the Office of Finance, and the involvement of PTO program offices in aspects of financial management.

Although PTO made improvements in its controls during the fiscal year, several key financial management positions have yet to be permanently filled. Specifically, the positions of Associate Commissioner and Chief Financial Officer and the Director for the Office of Budget are currently filled by acting officials.

We recognize PTO's commitment to preparing high quality and meaningful financial statements. To continue to this objective, it is necessary that the accounting requirements set forth in OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, and the Government Performance and Results Act (GPRA) of 1993 are taken into consideration for preparation of the fiscal year 1998 financial statements.

The implementation of OMB Bulletin 97-01 poses tremendous challenges to a reporting entity for various reasons. In particular, this Bulletin requires six statements to be prepared as compared to OMB Bulletin 94-01 which required the preparation of three statements. One of these six statements, the Statement of Net Cost, requires PTO to report its costs by suborganizations and programs, which should be based on the missions and outputs described in PTO's GPRA strategic and annual plans, its budget structure, and the Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards*. As the Federal Government has not been required previously to report information in such a manner for financial or budgetary purposes, PTO will need to ensure it places the appropriate emphasis on the implementation of OMB Bulletin 97-01.

We commend PTO's efforts to prepare for the increasing requirements of GPRA. Specifically, PTO participated as a pilot for the preparation of a strategic plan. In addition, PTO has begun to implement an activity-based costing methodology, in order to capture costs in a manner that is expected to enable PTO to compile financial and performance data in compliance with the requirements of GPRA, as well as OMB Bulletin 97-01. For example, the overview in the "*Fiscal Year 1997 A Patent and Trademark Office Review*" effectively captured performance and financial measures indicating the successes and challenges of PTO.

In accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States, the Inspector General reports are dated December 29, 1997, the date of completion of the audit field work. As required by DAO 213-5, please provide an audit action plan within 60 days of the date of this memorandum.

Should you need to discuss the contents of the report, please contact George E. Ross, Assistant Inspector General for Auditing, on (202) 482-1934, or Erin D. Singshinsuk, Director for Financial Statements Audit Division, on (703) 603-0301.

We appreciate the cooperation and courtesies extended to us by your staff during the audit.

Attachment

cc: W. Scott Gould, Chief Financial Officer and  
Assistant Secretary for Administration

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