

# Independent Auditor's Report












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

January 9, 2003

MEMORANDUM FOR: James E. Rogan  
Under Secretary of Commerce for Intellectual Property and  
Director of the U.S. Patent and Trademark Office

FROM: Johnnie E. Frazier 

SUBJECT: *USPTO's FY 2002 Financial Statements*  
Audit Report No. FSD-15213-3-0002

I am pleased to provide you with the attached audit report, which presents an unqualified opinion on the U.S. Patent and Trademark Office's FY 2002 financial statements. We commend the bureau for this noteworthy accomplishment. Also provided are reports on USPTO's internal control structure and compliance with laws and regulations. The independent certified public accounting firm of Ernst & Young LLP (E&Y) performed the FY 2002 audit. My office defined the audit's scope and oversaw its performance and delivery.

In the opinion of E&Y, the USPTO's financial statements are presented fairly, in all material respects and in conformity with generally accepted accounting principles, as of and for the year ended September 30, 2002. The results of the audit also indicate that the USPTO's internal control structure facilitates preparation of reliable financial and performance information. E&Y's *Report on Internal Control* contains no reportable conditions, and the *Report on Compliance with Laws and Regulations* identifies no instances of noncompliance.

If you wish to discuss the contents of this report, please call me on (202) 482-4661, or Michael Sears, Assistant Inspector General for Auditing, on (202) 482-1934. We appreciate the cooperation and courtesies USPTO extended to E&Y and my staff during the audit.

Attachments

cc: Otto J. Wolff  
Chief Financial Officer and Assistant Secretary for Administration  
Department of Commerce

Sandra L. Weisman  
Acting Chief Financial Officer and Acting Chief Administrative Officer  
U.S. Patent and Trademark Office

## Report of Independent Auditors

To the Office of Inspector General,  
Department of Commerce, and  
Under Secretary of Commerce for Intellectual Property and Director of the United States  
Patent and Trademark Office

We have audited the consolidated balance sheets of the U.S. Patent and Trademark Office (USPTO), an Agency of the United States within the Department of Commerce as of September 30, 2002 and 2001, and the related consolidating statements of net cost, and the consolidated statements of changes in net position, financing, and cash flows and combined statements of budgetary resources for the fiscal years then ended. These financial statements are the responsibility of the USPTO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits for the years ended September 30, 2002 and 2001 in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. These standards and requirements require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the USPTO as of September 30, 2002 and 2001, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of expressing an opinion on the financial statements referred to in the first paragraph. The information in the Management's Discussion and Analysis (MD&A) and the Supplemental Information is not a required part of the USPTO's financial statements, but is considered supplementary information required by OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*.

Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports as of and for the year ended September 30, 2002, dated December 13, 2002, on our consideration of the USPTO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

*Ernst & Young LLP*

December 13, 2002

## Report of Independent Auditors on Internal Control

To the Office of Inspector General,  
Department of Commerce, and  
Under Secretary of Commerce for Intellectual Property and Director of the United States  
Patent and Trademark Office

We have audited the financial statements of the U.S. Patent and Trademark Office (USPTO), an Agency of the United States within the Department of Commerce, as of and for the year ended September 30, 2002, and have issued our report thereon dated December 13, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the USPTO's internal control over financial reporting by obtaining an understanding of the USPTO's internal control, determined whether internal control had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 01-02. We did not test all internal control relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the USPTO's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements, losses or noncompliance may nevertheless occur and not be detected. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

In addition, with respect to internal control related to performance measures reported in the Management's Discussion and Analysis (MD&A), we obtained an understanding of the design of internal control relating to the existence and completeness assertions and determined whether they have been placed in operation, as required by OMB Bulletin 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

A separate letter, dated December 13, 2002, was provided to management that further discusses certain matters involving internal control that came to our attention as a result of our audit. We have also separately reported certain matters involving internal control and its operation in relation to our electronic data processing review. It is our understanding that these matters are being transmitted under separate cover.

This letter is intended solely for the information and use of the Department of Commerce Office of Inspector General, management of the USPTO, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

December 13, 2002



## Report of Independent Auditors on Compliance with Laws and Regulations

To the Office of Inspector General,  
Department of Commerce, and  
Under Secretary of Commerce for Intellectual Property and Director of the United States  
Patent and Trademark Office

We have audited the financial statements of the U.S. Patent and Trademark Office (USPTO), an Agency of the United States within the Department of Commerce, as of and for the year ended September 30, 2002, and have issued our report thereon dated December 13, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the USPTO is responsible for complying with laws and regulations applicable to the USPTO. As part of obtaining reasonable assurance about whether the USPTO's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 01-02, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the USPTO. We caution that noncompliance may occur and not be detected by the tests performed and that such testing may not be sufficient for other purposes.

The results of our tests disclosed no instances of noncompliance with the laws and regulations discussed in the preceding paragraph exclusive of FFMIA that are required to be reported under *Government Auditing Standards* or OMB Bulletin 01-02.

Under FFMIA, we are required to report whether the USPTO's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

The results of our tests disclosed no instances in which the USPTO's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.



Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the Department of Commerce Office of Inspector General, management of the USPTO, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst + Young LLP*

December 13, 2002

