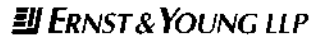


# Independent Auditor Reports



■ 1225 Connecticut Avenue, N.W.  
Washington, D.C. 20036

■ Phone: 202 427 6000

## Report of Independent Auditors


To the Office of Inspector General,  
Department of Commerce, and  
the Assistant Secretary of Commerce and Commissioner of Patents and Trademarks

We have audited the consolidated balance sheet of the U.S. Patent and Trademark Office (PTO), a bureau of the Department of Commerce as of September 30, 1999, and the related consolidated statements of net costs, changes in net position, budgetary resources, financing, and cash flows for the fiscal year then ended. These financial statements are the responsibility of PTO's management. Our responsibility is to express an opinion on those financial statements based on our audit. For fiscal year 1998, the Inspector General of the Department of Commerce audited PTO's consolidated balance sheet, and the statements of net costs, changes in net position, budgetary resources and financing whose report dated January 8, 1999, expressed an unqualified opinion on those statements.

We conducted our audit for the year ended September 30, 1999, in accordance with generally accepted auditing standards, 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 Bulletin 98-08, *Audit Requirements for Federal Financial Statements*, as amended. These standards require that we plan and perform the audit 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 audit provides 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 PTO at September 30, 1999, and its net costs, changes in net position, cash flows, budgetary resources, and reconciliation of net costs to budgetary obligations for the fiscal year then ended, in conformity with generally accepted accounting principles.

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 **ERNST & YOUNG LLP**

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The information in the Overview of PTO and the Supplemental Information of the PTO is not a required part of the financial statements, but is supplementary information required by Office of Management and Budget Bulletin 97-01, *Form and Content of Agency Financial Statements*. Such information has not been subjected to the auditing procedures applied in the audit of the Consolidated Financial Statements, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 3, 2000, on our consideration of the PTO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. These 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 audit.

*Ernst & Young LLP*

January 3, 2000



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### Report of Independent Auditors on Internal Control

To the Office of Inspector General,  
Department of Commerce, and  
the Assistant Secretary of Commerce and Commissioner of Patents and Trademarks

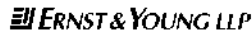
We have audited the balance sheet of the U.S. Patent and Trademark Office (PTO) as of September 30, 1999, and the related statements of net cost, changes in net position, financing, budgetary resources, and cash flows for the year then ended, and have issued our report thereon dated January 3, 2000.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 98-08, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audit, we considered PTO's internal control over financial reporting by obtaining an understanding of PTO's internal control, determined whether these internal controls 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 98-08. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, 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.

The management of PTO is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs on internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles; and data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Because of inherent limitations in any internal control, errors and irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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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 PTO'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. 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 Overview, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin 98-08. 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.

***STATUS OF PRIOR YEAR COMMENTS***

In reports issued by the Inspector General and other prior auditors, we identified one reportable condition relating to the internal control of PTO. PTO has taken significant actions to implement prior year recommendations or other mitigating controls to address this issue related to Electronic Data Processing.

\* \* \* \* \*

Separate letters, dated January 3, 2000, were provided to management which further discusses matters involving internal controls and their operations and other matters which came to our attention as a result of our audit.

 **ERNST & YOUNG LLP**

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

*Ernst & Young LLP*

January 3, 2000



■ 1225 Connecticut Avenue, N.W. ■ Phone: 202 327 6000  
Washington, D.C. 20036

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

To the Office of Inspector General,  
Department of Commerce, and  
the Assistant Secretary of Commerce and Commissioner of Patents and Trademarks

We have audited the balance sheet of the U.S. Patent and Trademark Office (PTO) as of September 30, 1999, and the related statements of net cost, changes in net position, financing, budgetary resources, and cash flows for the year then ended, and have issued our report thereon dated January 3, 2000.

We conducted our audit in accordance with: generally accepted auditing standards; 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. 98-08, *Audit Requirements for Federal Financial Statements*, as amended.

The management of PTO is responsible for complying with laws and regulations applicable to the PTO. As part of obtaining reasonable assurance about whether the PTO'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 98-08, 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 PTO. 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.

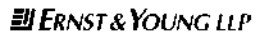
The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations discussed in the preceding paragraph exclusive of FFMIA that are required to be reported under *Government Auditing Standards* and OMB Bulletin 98-08.

At the request of the Inspector General of the Department of Commerce, we performed tests of compliance to determine whether the PTO financial management systems substantially comply with the Federal financial management systems requirements, applicable accounting standards, and the United States Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for the FFMIA included in Appendix D of OMB Bulletin 98-08.

The results of our tests disclosed no instances in which PTO's financial management systems did not substantially comply with 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.

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

*Ernst & Young LLP*

January 3, 2000

# Innovators and Innovations

## **Recognition and Education**

The primary goal of the Patent and Trademark Office (PTO) Office of Public Affairs is to recognize and honor the role inventors and invention play in American society and to educate Americans of all ages on the subjects of intellectual property and the patent system.

## **National Inventors Hall of Fame**

To further our goal, the PTO has entered into a series of joint projects with the National Inventors Hall of Fame. Under PTO guidance, the Hall of Fame created and distributed exhibits, and the PTO co-sponsored the Camp Invention summer day camp program and produced the annual National Inventors Hall of Fame Induction Ceremony.

## **Ronald H. Brown American Innovator Award**

The Ronald H. Brown American Innovator Award was presented this year to Dr. Brian Molloy and Dr. Klaus Schmiegel, inventors of Prozac; to James West, inventor of the electric microphone; and to Donald Campbell, a co-inventor of a process that greatly increases the yield of high-octane gasoline from crude oil. The award is given annually to the living Americans who have been inducted into the National Inventors Hall of Fame of that year.

## **Patent and Trademark Office Museum**

The Patent and Trademark Museum featured two new exhibits during FY 1999. The exhibits were devoted to women inventors and to minority inventors. Entitled "Colors of Invention: Celebrating the Diversity of American Innovation," the exhibits will be featured during February and March of each year as part of PTO's annual Black History Month and Women's History Month.

## **Office of Independent Inventors Programs**

The Office of Public Affairs worked closely throughout the year with the new Office of Independent Inventors Programs to, among other things, produce and distribute public service television and radio advertisements that warned inventors about invention development scams. Public Affairs also coordinated the annual Inventors Expo and provided staff support for the annual Independent Inventors Conference held in Houston.

## **Education**

Educational outreach efforts during the year included the development of a children's page on the PTO website, tours of the PTO headquarters, and a new trademark-teaching syllabus for use in classrooms throughout the country. The syllabus supplements the existing Project XL material and is to be used in conjunction with a video on trademarks produced in FY 1999.



# Other Accompanying Information

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First used in 1910, registered in 1976.