Patent and Trademark Office
Activity-Based Costing Project

<u>Background</u>

PTO is at the forefront in the use of Activity-Based Costing and Activity-Based Budgeting. Corporate Plan-2001 continues to incorporate the results of our activity-based costing effort in our annual budget submission. Activity-based costing is generating unit cost models that meet Federal accounting standards for products and services for each of our business areas. The models that have been developed enable us to portray the overall costs (expenses) of doing business by major business line (that is, Patents, Trademarks, Information Dissemination and Policy).

Utilizing activity-based costing techniques, PTO can accurately accumulate, analyze, and distribute costs to the major business lines -- Patents, Trademarks, Information Dissemination -- and Policy. This rigorous process produces accurate activity and object costs, including unburdened costs as well as costs that are fully burdened with indirect expenditures. This cost accounting work was initiated in fiscal year 1997, but the methodology is continually reviewed, refined, and improved. For instance, the methodology used to allocate information technology costs in fiscal year 1997 was based on a labor-intensive process involving personnel interviews and research of procurement documents. In the following year, the information technology cost allocation effort was improved through a more simplified methodology, which utilizes project codes and is more accurate in addition to being automated and auditable. As the cost allocation methodologies continue to improve for accuracy, trend figures will also become more reliable for analysis and budget estimates.

Activity-Based Budgeting enables us to take the cost models that include actual costs from the previous year and apply the percentage distribution to the planned obligations for the current or budget year. This enables us to present a budget structure wherein we identify performance goals and measures for each of our major business lines and our policy activities, and link them to resource requirements.