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United States Government Accountability Office
Washington, DC 20548

April 25, 2012

The Honorable Frank R. Wolf
Chairman
Subcommittee on Commerce, Justice,
Science, and Related Agencies
Committee on Appropriations
House of Representatives

Subject: *Patent and Trademark Office: New User Fee Design Presents Opportunities to Build on Transparency and Communication Success*

Dear Mr. Chairman:

This report formally transmits the briefing we gave on January 23, 2012 on the U.S. Patent and Trademark Office's (USPTO) user fee design (see enc. I), as well as subsequent comments from USPTO (see enc. III). Some updates were made to this briefing after it was initially delivered to USPTO officials. This letter presents a summary overview; the slides present our work and findings more completely.

The Leahy-Smith America Invents Act (AIA), enacted in September 2011, significantly broadened USPTO's authority to design and set its user fees.¹ Our objective was to analyze how aspects of USPTO's proposed user fee design may address challenges facing USPTO and stakeholders. We began this work under the authority of the Comptroller General in the context of questions raised over time by USPTO's appropriations and authorizing committees on the USPTO reauthorization debate, including how USPTO's fee design affected both its operations and oversight. Subsequently, you expressed interest in our analysis and asked that this work be addressed to you.

We focused on patent fees and processes, and excluded trademark fees and processes, because patent fees represent almost all of USPTO fee collections. Given the authority to set or adjust patent fees newly granted to USPTO in the AIA, we assessed how USPTO fees are set, used, and reviewed using our *Federal User Fees: A Design Guide*.² We reported on issues related to USPTO fee collections in a previous report.³ For more information on our objectives, scope, and methodology, see enclosure II. In addition to this briefing, USPTO officials requested and received information from us on effective stakeholder communication in October 2011.

¹Pub. L. No. 112-29.

²See GAO, *Federal User Fees: A Design Guide*, GAO-08-386SP (Washington, D.C.: May 29, 2008).

³See GAO, *Budget Issues: Electronic Processing of Non-IRS Collections Has Increased but Better Understanding of Cost Structure Is Needed*, GAO-10-11 (Washington, D.C.: Nov. 20, 2009).

In summary, to successfully manage AIA implementation, USPTO must consider a number of trade-offs as it sets and uses its over 340 fees, as well as maintain an effective fee review process. USPTO officials have stated that the agency's limited fee-setting authority prior to the AIA and uncertainty about the extent to which its collections would be available contributed to a number of the agency's operational challenges, such as the current backlog of over 640,000 patent applications and patent application processing time of over 30 months. They said fees that generated over 80 percent of USPTO's revenues were set in statute, limiting the agency's ability to ensure that total collections kept pace with total costs as its workload has grown. USPTO can only use its fee collections to the extent that Congress makes them available. In the past, Congress has in some years made available less than the total amount collected; there has been significant debate about the status and use of these fees collected in excess of amounts appropriated.

The AIA made changes to USPTO's fee design, including granting the agency the ability to set fee rates and changing how any excess collections would be treated. Prior to enactment of the AIA, fees collected were deposited into USPTO's account and were available to the extent appropriated. The AIA created a second account; USPTO collections in excess of appropriations are to be deposited into the new Patent and Trademark Fee Reserve Fund. As before, these excess collections are available to USPTO only to the extent appropriated by Congress. However, we believe the establishment of this special account increases transparency for the use of these funds because any amounts appropriated, transferred, or rescinded from the fund would be clearly visible.

By law, USPTO patent fees must cover patent costs in the aggregate, but USPTO is not required by law to align individual fees and activity costs on a fee-by-fee basis; we found that individual USPTO fees and costs are not aligned in many cases. We have previously reported that while less precise alignment between fees and costs may result in some inequity or inefficiency, there may be policy and administrative reasons for this choice such as, for example, holding patent filing fees lower than costs in order to encourage innovation. USPTO reported that, not unlike the situation faced by other federal agencies that depend on fee revenue, uncertainty about (1) the extent to which requests for services and related collections match estimates and (2) the level of collections that would be available to the agency annually complicates its ability to execute annual and multi-year plans. To smooth the impact of economic downturns on operations and to help mitigate funding uncertainty, since fiscal year 2010 USPTO has been reserving a portion of the amount Congress makes available annually through appropriations as a designated operating reserve that could be carried over for use in future years, as USPTO is generally appropriated no-year funds. USPTO is drafting an operating reserve policy on the management of this reserve. This practice is consistent with our previous reporting that an operating reserve is important for fee-funded programs to match fee collections to average program costs over time and because program costs do not necessarily decline with a drop in fee collections. However, it will be important that the policy governing the use of this reserve ensures alignment with agency goals. USPTO has a robust fee review process in place and stakeholder communication regarding AIA-related fee adjustments is under way. However, USPTO has not included some information—such as an accounting of program costs and assumptions used to project future program costs—in some past examples of communications with stakeholders and Congress. We have previously reported that tools for oversight are enhanced if the agency clearly reports its methods for setting the fee, including such cost information. While stakeholder groups we spoke with were generally satisfied with USPTO's

communication approach, some interviewees were not certain that this success would be maintained when agency leadership changes. USPTO's challenge will be to establish guidance and protocols to help ensure consistency over time and through subsequent leadership transitions. In our briefing, we make a number of recommendations to strengthen transparency and communication during the implementation of the AIA reforms, including finalizing a policy for USPTO's operating reserve; providing program costs, fee-setting methods, and the rationale for policy choices in communications with Congress and stakeholders; and establishing protocols for communication with stakeholders.

We provided a draft of this product for comment to the Secretary of Commerce. We received written comments from the Department of Commerce (Commerce) which are summarized below, and reprinted in enclosure III. USPTO provided technical comments that we incorporated as appropriate. We also provided portions of the report to nonfederal stakeholders for their review and made technical corrections as appropriate.

In its comments, Commerce concurred with our recommendations and provided target completion dates for each recommendation. Commerce stated that USPTO is in the process of finalizing the operating reserve policy. In addition, Commerce stated that Commerce and USPTO "published a high-level overview of the accounting of both historical and prospective program costs, fee-setting methodology, and rationale in the information provided to the public in support of the initial fee proposal on February 7, 2012" and will provide additional details in these areas in the notice of proposed rulemaking.

We are sending copies of this report to the Secretary of Commerce, the Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office and interested Congressional committees. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-6806 or irvings@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in enclosure IV.

Sincerely yours,



Susan J. Irving
Director for Federal Budget Analysis
Strategic Issues

Enclosures – 4



U.S. Patent and Trademark Office

User Fee Review

For more information, contact Susan J. Irving on (202) 512-6806 or irvings@gao.gov.

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Objectives, Scope, and Methodology

- In order to evaluate the U.S. Patent and Trademark Office's (USPTO) user fee design in a way that timely informs USPTO's implementation of its new fee-setting authority, we analyzed how aspects of USPTO's proposed user fee design may address challenges facing USPTO and its stakeholders.
- To do this, we reviewed documentation from USPTO and interviewed cognizant officials from USPTO and the Department of Commerce's Office of the Inspector General. We also interviewed five groups that represent USPTO stakeholders (in this briefing we refer to these associations as stakeholder groups):
 - Patent Public Advisory Committee (PPAC),
 - Intellectual Property Owners Association (IPO),
 - American Intellectual Property Law Association,
 - National Association of Manufacturers, and
 - Association of American Universities (AAU).

Objectives, Scope, and Methodology (cont'd)

- This review focuses on patent fees and processes, excluding trademark fees and processes, because fees for patent-related processes represent almost all of USPTO fee collections. For these fees, we assessed how USPTO fees are set, used, and reviewed. We reported on issues related to USPTO fee collections in GAO-10-11.¹
- We conducted this performance audit from June 2011 to April 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹See GAO, *Budget Issues: Electronic Processing of Non-IRS Collections Has Increased but Better Understanding of Cost Structure Is Needed*, GAO-10-11 (Washington, D.C.: Nov. 20, 2009).

Results in Brief

- We provided portions of this briefing to USPTO officials in January 2012, in the early stages of its fee-setting process. In addition to this briefing, in October 2011 USPTO officials requested and received information from us on effective stakeholder communication. During the course of the engagement, USPTO officials also stated that they were familiar with our *Federal User Fees: A Design Guide*.²
- The America Invents Act (AIA), enacted in September 2011, made changes to USPTO's user fee design. To successfully manage implementation of the fee-related aspects of the AIA, USPTO must consider a number of trade-offs as it sets and uses fees. In addition, as USPTO employs a number of new flexibilities, it becomes increasingly important that it maintain an effective fee review process.
- USPTO patent fees must cover patent costs in aggregate, but USPTO is not required by law to align its more than 340 patent and trademark fees with costs on a fee-by-fee basis. In many cases individual USPTO fees are not closely aligned with activity costs. We have previously reported that while less precise alignment between fees and costs may result in some inequity or inefficiency, there may be policy and administrative reasons for making this choice. For example, USPTO has set patent filing fees lower than costs in order to encourage innovation.

²See GAO, *Federal User Fees: A Design Guide*, GAO-08-386SP (Washington, D.C.: May 29, 2008).

Results in Brief (cont'd)

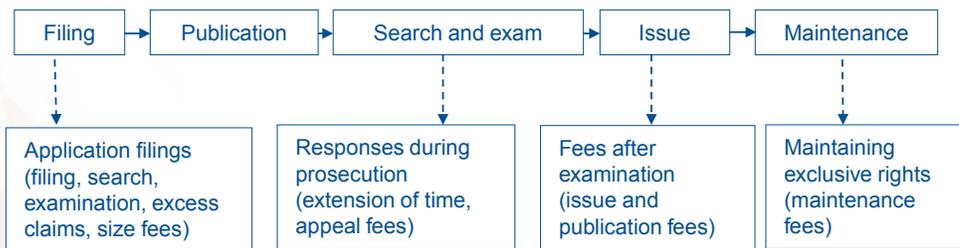
- USPTO reported that, not unlike the situation faced by other federal agencies that depend on fee revenue, uncertainty about (1) the extent to which requests for services and related collections match estimates and (2) the level of collections that would be available each year complicates its ability to execute annual and multi-year plans. To mitigate these uncertainties, since fiscal year 2010 USPTO has been reserving a portion of the amount Congress makes available annually through appropriations as a designated operating reserve, which could be carried over for use in future years, as USPTO is generally appropriated no-year funds. We have previously reported that an operating reserve is important for fee-funded programs to match fee collections to average program costs over time and because program costs do not necessarily decline with a drop in fee collections.

Results in Brief (cont'd)

- USPTO has a robust fee review process in place and stakeholder communication regarding AIA-related fee adjustments is under way.
 - The agency submits biennial fee reviews, publishes fee and forecasting information in its annual budget submission and performs internal analysis of fees and related activity costs.
 - USPTO has not included some information—such as an accounting of program costs and assumptions used to project future program costs—in some communications with stakeholders and Congress.
 - We have previously reported that tools for oversight are enhanced if the agency clearly reports its methods for setting the fee, including an accounting of program costs and the assumptions it uses to project future program costs.
- USPTO is conducting outreach to stakeholders on upcoming fee changes. While stakeholder groups we spoke with were generally satisfied with USPTO's communication approach, some interviewees were not certain that this success would continue when agency leadership changes.

Background: USPTO Funding Model

- Fully fee funded since 1990
- Over 340 patent and trademark fees of different types
- Patent fees generate approximately 90 percent of revenues; trademark fees generate the remaining 10 percent
- Fees are collected for USPTO products and services at different points in the patent process



Source: USPTO

- By law, patent fee collections are required to cover patent costs in the aggregate, and trademark fees cover trademark costs in aggregate; however, fees are not required to align with costs on a fee-by-fee basis.

Background: Fee Design Prior to the Leahy-Smith America Invents Act

- USPTO officials stated that prior to the passage of the AIA, limited fee-setting authority and uncertainty about the extent to which its collections would be available contributed to USPTO's challenges. Specifically, they said the following:
 - Fees that generated over 80 percent of USPTO's revenues were set in statute, limiting the agency's ability to adjust fees and therefore more closely match costs to collections each year. Fees generating the remaining revenue could be set through the regulatory process.
 - USPTO can only use collections to the extent that Congress makes them available. In some years, collections have exceeded both USPTO's estimates and the amount made available by Congress. In other years, collections have been less than the amount made available. In years when USPTO has collected more than the appropriated amounts, these excess amounts remained unavailable to USPTO. At the same time, USPTO's workload has grown.
 - Uncertainty about future access complicated multi-year planning.
 - These factors significantly impaired USPTO's ability both to hire examiners to keep up with USPTO's workload and to invest in needed information technology systems to modernize USPTO. There is a backlog of over 640,000 patent applications, and patent application processing time is running over 30 months.

Background: Leahy-Smith America Invents Act (P.L. 112-29, Enacted September 16, 2011)

The AIA:

- Granted USPTO authority to set all of its fee rates through regulation;³
- Requires the relevant public advisory committee—that is, PPAC or the Trademark Public Advisory Committee—to hold a public hearing within 30 days of receiving a new fee proposal from USPTO;
- Established a temporary 15 percent surcharge on USPTO’s current fees that will remain in effect until fees are set for the first time under USPTO’s new authority;
- Created a special account called the Patent and Trademark Fee Reserve Fund. Any USPTO collections in excess of the amounts annually appropriated by Congress are deposited into this account. As before, these excess collections are available to USPTO to the extent appropriated by Congress. However, we believe this special account increases transparency about the use of these funds because any amounts appropriated, transferred, or rescinded from the fund would be clearly visible – an issue about which there has been significant debate in the past.
- Required USPTO to establish significantly reduced fee rates for micro entities.⁴

³However, the statutory framework continues to impose other requirements related to fees, for example, maintenance fees must be paid at particular points in time.

⁴Micro entities are defined as small entities that are not named as an inventor on more than four previous applications and had a gross income less than three times the median household income in the preceding calendar year.

Background: Key Factors to Consider When Designing User Fees

- In 2008, we published a design guide with criteria and key questions to consider when designing user fees.⁵ Examples include:
 1. Setting fees: How will program costs be determined and assigned?
 2. Collecting fees: At what point should the fees be collected? What mechanisms are available to ensure payment/compliance?
 3. Using fees: Is agency access to fees subject to Congressional appropriation? To what extent is agency access to fee collections limited?
 4. Reviewing fees: How frequently will fees be reviewed and updated? What information is included in the review? What role do stakeholders play in fee reviews?
- USPTO officials stated that they were familiar with our *User Fee Design Guide*.

⁵For a complete list of criteria, see GAO-08-386SP.

USPTO Must Consider Design Trade-offs When Setting, Using, and Reviewing Its Fees

- Through the AIA, Congress granted USPTO the ability to set all of its fee rates and created a new account structure for fees collected in excess of amounts appropriated.
- However, as we will discuss, to successfully manage the AIA implementation, USPTO must consider a number of design trade-offs as it determines the rates at which to *set* its fees and the manner in which fee collections will be *used*.
- In addition, as USPTO employs its new flexibilities, it will become increasingly important that it continues to build on and improve an already-robust fee *review* process to ensure that total collections and costs remain aligned over time.

Setting Fees: Aligning Fees with Costs

- USPTO collects historical program cost information at the activity level using an activity based information cost-accounting system.
- Current fees are set at what the agency described as reasonable rates to encourage innovation. As part of this strategy, fee rates for activities at the beginning of the patent process are lower than actual historical costs to encourage people to file patent applications. To bridge the resulting cost-collections gap, USPTO charges fees that are higher than the costs of activities that occur later in the patent process. As such, fees charged later in the patent process subsidize the costs of activities that occur earlier in the patent process.
- We found that as of fiscal year 2010, the majority of USPTO's individual patent fees and costs for which we had data were misaligned by more than 50 percent.
- In February 2012, USPTO proposed some targeted adjustments to fees where the gap between cost and current fee rate is greatest.

Setting Fees: Aligning Fees with Costs (cont'd.)

- We previously reported that aligning fees closely with activity costs promotes equity and economic efficiency.⁶
 - Disconnect between fees and costs
 - can lead to overuse of more expensive services, because fee payers do not bear the full cost of the service, and
 - results in some fee payers subsidizing others.
 - However, there may be policy or administrative reasons for less precise alignment.
- Some stakeholder groups we interviewed report mixed opinions on setting fee rates that are not precisely aligned with costs, especially in light of USPTO's new fee setting authority.

⁶GAO-08-386SP.

Setting Fees: Charging Some Users Less than Their Full Cost

- The AIA requires USPTO to establish significantly reduced fee rates for small and micro entities.
- We have previously reported that charging some users less than their full cost to promote certain policy goals may provide one kind of equity while raising other equity and efficiency concerns.⁷
 - Charging users less than their full cost can promote equity by factoring in the filer's ability to pay.
 - However, the practice also
 - creates cross-subsidies and
 - can increase administrative costs because the agency must track eligibility and application of the reduced rates.
- Some stakeholder groups' opinions on this practice parallel the constituencies they represent. Specifically:
 - IPO is concerned about the 75 percent micro entity discount, because it results in larger entities subsidizing smaller entities and
 - AAU strongly supports the micro entity discount.

⁷GAO-08-386SP.

Setting Fees: Fee Adjustments

- The AIA established the potential for future fee adjustments by granting USPTO fee-setting authority. We have reported that substantial changes in fees could have unintended consequences.
 - For example, significant fee increases can result in an anticipatory surge in applications that could exacerbate workload issues⁸ and encourage applicants to seek patents elsewhere. USPTO recently experienced a version of this. Specifically,
 - As previously mentioned, the AIA established a 15 percent surcharge that went into effect just prior to the beginning of fiscal year 2012.
 - As users anticipated the impending surcharge, USPTO received a spike in payments near the end of fiscal year 2011, resulting in \$130 million in fees collected in excess of appropriations.
 - We have also reported that transitional measures—such as phasing in increases—can help mitigate these consequences.⁹ However, this may affect operations by delaying expected revenue.
 - In addition, we have reported that, moving forward, more frequent fee reviews can result in smaller fee increases.

⁸For one example, see GAO, *Federal User Fees: Additional Analyses and Timely Reviews Could Improve Immigration and Naturalization User Fee Design and USCIS Operations*, GAO-09-180 (Washington, D.C., Jan. 23, 2009).

⁹GAO-08-386SP.

Using Fees: Access to Collections

- Annual fee collections vary from year to year and are available to USPTO only to the extent appropriated by Congress. USPTO reports that, not unlike the situation faced by other federal agencies that depend on fee revenue, uncertainty about (1) the extent to which requests for services and related collections match estimates and (2) the level of collections that would be available each year complicates its ability to execute annual and multi-year plans.
 - To smooth the impact of economic downturns on operations and help address funding uncertainty, since fiscal year 2010 USPTO has been reserving a portion of the amount Congress makes available annually through appropriations as a designated operating reserve that could be carried over for use in future years, as USPTO is generally appropriated no-year funds.
 - As of March 2012, USPTO has published information on the management of its operating reserve, including rationale, purpose, expected level of reserves, and reporting. The agency is drafting a final operating reserve policy.
- We have previously reported that a reserve is important for fee-funded programs to match fee collections to average program costs over time and because program costs do not necessarily decline if fee collections drop.¹⁰

¹⁰GAO-08-386SP.

Using Fees: Access to Collections (cont'd.)

- In some years, Congress has made available to USPTO the full amount or more than USPTO expected to collect; in other years Congress has made less available.
 - USPTO has in some years collected more than it estimated; in other years, it collected less. Since 2000, USPTO estimated that it would collect \$19.8 billion and has actually collected \$18.8 billion.¹¹
 - USPTO reports that cumulatively over \$1 billion in fees collected since 1991 remain unavailable to USPTO without additional Congressional action.¹²
 - This long-standing issue, including the status and use of these excess collections, was central to the patent reform debate. As previously mentioned, any USPTO collections in excess of appropriations are to be deposited into the newly established Patent and Trademark Fee Reserve Fund. Because any appropriation, transfer or rescission from the fund would be clearly visible, we believe the Fund increases transparency for these monies.

¹¹USPTO reports that fee estimates during this time period included three years of legislative assumptions that did not materialize as expected and significantly affected estimated fee collections.

¹²USPTO reports that this amount includes unavailable fees of \$790.1 million and unavailable special receipt funds under the Omnibus Budget Reconciliation Act of 1990 of \$233.5 million.

Using Fees: Access to Collections (cont'd.)

- The newly established Patent and Trademark Fee Reserve Fund does not ensure USPTO's access to these funds because Congress must act to make the funds available.
 - Providing freer access to an agency's fee collections can increase agency flexibility but may increase the need/desire for an oversight structure.¹³ Congress could increase accountability for and oversight of fee collections in various ways. For example, it could require more detailed spending plans, hold hearings on progress toward expected results, limit the availability or use of the collections in annual appropriation acts, limit the amount of funds an agency is permitted to carry over from year to year, or take a combination of these actions.
 - All of the stakeholder groups we interviewed cited fee access as a key concern.
- Two of the stakeholder groups we spoke with stated that members of the user community had expressed a willingness to pay more for better and faster service if USPTO were guaranteed access to all of its collections.

¹³GAO-08-386SP.

Reviewing Fees: Oversight

- USPTO has a robust fee review process:
 - USPTO submits biennial fee reviews to the Department of Commerce that list fees, fee rates, review dates, total collections and the number of transactions per fee.
 - USPTO publishes fees, actual collections, collection estimates, collection estimate assumptions, and a discussion of workload estimates in its annual budget submission.
 - USPTO reports that it internally performs fee analysis that compares fees to historical program costs on a regular basis.
 - In a June 18, 2008 notice of proposed rulemaking for fiscal year 2009, USPTO proposed changes to three fees. The proposal included information on average program costs for the activity in question.
 - However, USPTO did not include projected costs or how the costs were calculated; rather, information on how costs were calculated was included in the Final Rule.
 - USPTO stated that it followed the fee-setting guidance in GAO's *Federal User Fees: A Design Guide* when developing its cost methodology and included projected costs when it published various notices of proposed rulemaking in early 2012.

Reviewing Fees: Criteria

- We have previously reported the following:¹⁴
 - Agencies should review fees regularly to provide transparency and ensure that fees remain aligned with program costs.
 - The risk of agencies that set their own fees artificially inflating their costs may be reduced—and tools for Congressional and stakeholder oversight enhanced—if an agency clearly reports its methods for setting the fee, including an accounting of program costs and the assumptions it uses to project future program costs and fee collections.
 - When an agency has authority to adjust a fee through the regulatory process, it should make substantive information about recent and projected program costs and fee collections available to the public through notices in the *Federal Register*.
- Other sources of fee review guidance:
 - The Chief Financial Officers Act of 1990 and Office of Management and Budget Circular A-25

¹⁴GAO-08-386SP.

Reviewing Fees: Stakeholder Communication

- Stakeholder communication regarding the AIA-related fee adjustments is under way. Stakeholder input on the AIA-related changes has been solicited via e-mail and postal mail.
- Prior to the AIA, USPTO used *Federal Register* notices to solicit feedback on regulatory fee changes.
- When forecasting fee collections, USPTO discusses current and future environment assumptions with stakeholders, other nations' intellectual property offices, intellectual property organizations and bulk payment firms.
- The AIA states that USPTO must solicit stakeholder input when setting fees through the regulatory process via
 - public hearings and
 - *Federal Register* notices.
- USPTO advertised two public fee-setting hearings and seven AIA "road show" events nationwide to review patent operations and process changes in February and March 2012.

Reviewing Fees: Stakeholder Communication (cont'd.)

- All stakeholder groups we spoke with were generally satisfied with communication with USPTO and expressed confidence in USPTO's current leadership. However,
 - some interviewees reported less successful communication under previous leadership and expressed concern that current success could diminish when agency leadership changes.
- Stakeholder groups we interviewed noted that USPTO uses a combination of the following to communicate with stakeholders:
 - Webinars
 - Meetings
 - Newsletters
 - Website information
 - E-mail
- PPAC members expressed an interest in receiving more written information and data at an earlier date prior to meetings with USPTO to better prepare for the meetings, as well as more detailed cost information as USPTO's new fee-setting authority is exercised.

Reviewing Fees: Stakeholder Communication (cont'd.)

- During the course of our review, USPTO officials requested examples of our previous work on successful fee reviews. We provided this information in October 2011 in order to inform USPTO's development of its stakeholder communication approach for fees set under the AIA.
- We have previously reported the following:
 - Effectively communicating with stakeholders involves sharing relevant analysis and information as well as providing opportunities for stakeholder input.¹⁵
 - Stakeholder collaboration was most successful in cases where substantive, two-way communication had taken place between the agency and stakeholders.¹⁶
 - Reliance on the *Federal Register* is insufficient for obtaining input, especially for nonfederal stakeholders.¹⁷
 - Agencies and nonfederal parties suggested making greater use of diverse communication technologies and venues to promote public participation.¹⁸

¹⁵GAO-08-386SP.

¹⁶See GAO, *Federal User Fees: Substantive Reviews Needed to Align Port-Related Fees with the Programs They Support*, GAO-08-321 (Washington, D.C.: Feb. 22, 2008), and *Federal User Fees: Key Aspects of International Air Passenger Inspection Fees Should Be Addressed Regardless of Whether Fees Are Consolidated*, GAO-07-1131 (Washington, D.C.: Sept. 24, 2007).

¹⁷See GAO, *Reexamining Regulations: Opportunities Exist to Improve Effectiveness and Transparency of Retrospective Reviews*, GAO-07-791 (Washington, D.C.: July 16, 2007).

¹⁸GAO-07-791.

Conclusions

- Through the AIA, Congress has provided USPTO the opportunity to consider and address many aspects of its funding model previously noted as challenges.
- Now that USPTO has new flexibilities in designing its fees, it must consider a number of trade-offs to successfully design and implement its fee structure, including
 - who pays how much,
 - who subsidizes whom,
 - whether costs are recovered at the aggregate or activity level and how these choices incentivize/decentivize the use of various USPTO services, and
 - whether the expected results align with USPTO's goals.
- USPTO has taken steps to manage funding uncertainty by setting aside in an operating reserve a portion of the amount Congress appropriates to it; USPTO's challenge is to develop controls and policies to ensure its use aligns with agency goals and its balances are sufficient to meet possible emergency needs.
- USPTO has a strong stakeholder communication base on which to build in order to ensure transparency, encourage two-way communication, and promote acceptance of proposed changes, regardless of leadership changes.

Recommendations for Executive Action

- To strengthen transparency and communication during the implementation of the AIA reforms, we recommend that the Secretary of Commerce direct the Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office to take the following actions:
 - (1) Finalize an operating reserve policy, including the expected level of reserves, to smooth the impact of economic downturns on operations and to ensure its use aligns with agency goals.
 - (2) Build on current communication success to provide stakeholders opportunities for substantive, two-way communication when seeking input on the AIA fee-setting process. Moving forward, this should include
 - providing an accounting of program costs and the assumptions used to project future program costs in biennial fee reviews and
 - clearly communicating its fee-setting methods and rationale for policy choices to provide Congress with sufficient information for oversight and transparency for stakeholders and the public.
 - (3) Establish guidance and protocols for communication with PPAC and other stakeholders about the fee process in order to help ensure consistency over time and through subsequent leadership transitions.

GAO on the Web

Website: <http://www.gao.gov/>

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Enclosure II: Objectives, Scope, and Methodology

We performed our work under the authority of the Comptroller General in the context of questions raised over time about how fee design affected both operations and oversight of the U.S. Patent and Trademark Office (USPTO) and to inform USPTO's implementation of the fee-setting authority granted by the Leahy-Smith America Invents Act (AIA). Our objective was to analyze how aspects of USPTO's proposed user fee design may address challenges facing USPTO and stakeholders. This review focuses on patent fees and processes, excluding trademark fees and processes, because patent fees represent almost all of USPTO fee collections. We assessed how USPTO fees are set, used, and reviewed using criteria outlined in our *Federal User Fees: A Design Guide*.¹ We reported on issues related to USPTO fee collections in a previous report.²

To do this, we reviewed documentation from USPTO and the Department of Commerce's Office of the Inspector General. We reviewed relevant statutes and guidance governing USPTO patent fee processes. We also attended a Patent Public Advisory Committee (PPAC) public hearing intended to inform users about fee changes during AIA implementation. We interviewed cognizant officials from USPTO, the Department of Commerce's Office of the Inspector General, as well as five of USPTO's internal and external stakeholder groups: PPAC, the Intellectual Property Owners Association, the American Intellectual Property Law Association, the National Association of Manufacturers, and the Association of American Universities. Stakeholder groups were identified either by USPTO or our team as relevant stakeholder groups for USPTO. The list of stakeholder groups selected was then limited to those with headquarters near Washington, D.C. We selected these organizations in order to provide variation in organization type, member type, and industry type.

We conducted this performance audit from June 2011 to April 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

¹GAO-08-386SP.

²GAO-10-11.

Enclosure III: Comments from the Department of Commerce



UNITED STATES DEPARTMENT OF COMMERCE
The Secretary of Commerce
Washington, D.C. 20230

April 11, 2012

Ms. Susan Irving
Director for Federal Budget Analysis
Strategic Issues
U.S. Government Accountability Office
441 G St NW
Washington, DC 20548

Dear Ms. Irving:

Enclosed is the U.S. Department of Commerce's response to the recommendations in the U.S. Government Accountability Office's draft report titled "Patent and Trademark Office: New User Fee Design Presents Opportunities to Build on Transparency and Communication Success" (GAO 12-514R). We prepared this response according to the Office of Management and Budget's Circular A-50.

Sincerely,

A handwritten signature in black ink, appearing to read "John E. Bryson".

John E. Bryson

Enclosure

**DOC Response to Recommendations in the
United States Government Accountability Office Report titled
“Patent and Trademark Office: New User Fee Design Presents Opportunities to Build on
Transparency and Communication Success” (GAO-12-514R)
March 2012**

To strengthen transparency and communication during the implementation of the Leahy-Smith America Invents Act (AIA) reforms, we recommend that the Secretary of Commerce direct the Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office (USPTO) to take the following actions:

Recommendation 1: Finalize an operating reserve policy, including the expected level of reserves, to smooth the impact of economic downturns on operations and to ensure its use aligns with agency goals.

DOC Response: The Department of Commerce and the USPTO agree with the GAO recommendations and the USPTO is in the process of finalizing the operating reserve policy using the information provided to the public in support of the initial fee proposal on February 7, 2012, as the foundation.

Target Completion Date: June 30, 2012

Recommendation 2: Build on current communication success to provide stakeholders opportunities for substantive, two-way communication when seeking input on the AIA fee-setting process. Moving forward, this should include:

- providing an accounting of program costs and the assumptions used to project future program costs in biennial fee reviews, and
- clearly communicating its fee-setting methods and rationale for policy choices to provide Congress with sufficient information for oversight and transparency for stakeholders and the public.

DOC Response: The Department of Commerce and the USPTO agree with the GAO recommendation and published a high-level overview of the accounting of both historical and prospective program costs, fee-setting methodology, and rationale in the information provided to the public in support of the initial fee proposal on February 7, 2012. The notice of proposed rulemaking will provide additional details in each of these areas.

Target Completion Date: June 30, 2012

Recommendation 3: Establish guidance and protocols for communication with PPAC and other stakeholders about the fee process in order to help ensure consistency over time and through subsequent leadership transitions.

DOC Response: The Department of Commerce and the USPTO agree with the GAO recommendation and will incorporate guidance and protocols for communication about the fee process in a fee-setting policy.

Target Completion Date: December 31, 2012

Enclosure IV: GAO Contact and Staff Acknowledgments

GAO Contact Susan J. Irving, (202) 512-6806 or irvings@gao.gov

Staff Acknowledgments In addition to the contact named above, Jackie Nowicki, Assistant Director, and Elizabeth Hosler, Senior Analyst-in-Charge, managed all aspects of this assignment. Vida Awumey, Hayley Landes, Felicia Lopez, Julia Matta, and Elizabeth Wood made key contributions to this report.

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