



INTERNAL AUDIT DIVISION

AUDIT REPORT

Audit of the United Nations Postal Administration

Overall results relating to the promotion of the aims and activities of the United Nations to the rest of the world through stamps, and for generating revenue from the sale of stamps and related products, were initially assessed as partially satisfactory. Implementation of six important recommendations remains in progress.

FINAL OVERALL RATING: PARTIALLY SATISFACTORY

21 June 2012

Assignment No. AH2011/513/04

CONTENTS

	<i>Page</i>
I. BACKGROUND	1 - 2
II. OBJECTIVE AND SCOPE	2 - 3
III. AUDIT RESULTS	3 - 10
A. Risk management and strategic planning	4 - 6
B. Integrated programme and financial management reporting system	6 - 8
C. Regulatory framework	8 - 10
IV. ACKNOWLEDGEMENT	11
ANNEX I Status of audit recommendations	
APPENDIX 1 Management response	

AUDIT REPORT

Audit of the United Nations Postal Administration

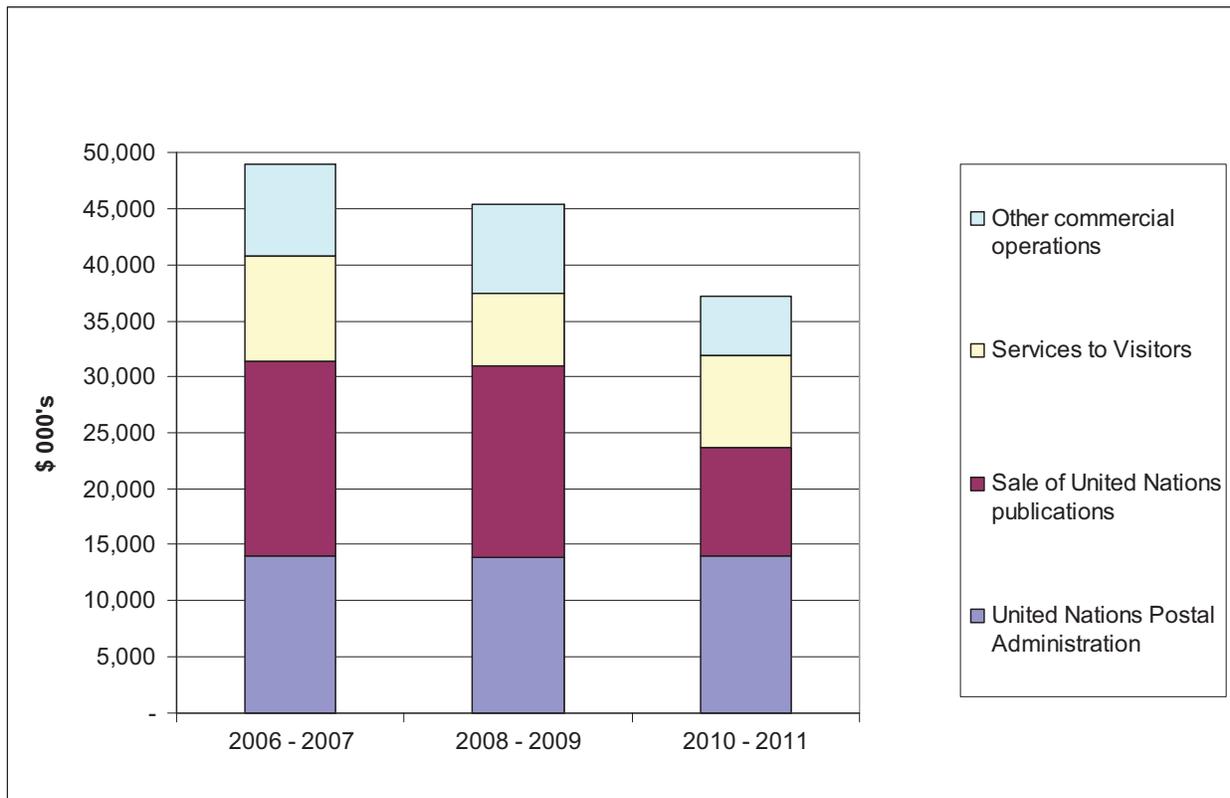
I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of the United Nations Postal Administration (UNPA) in New York.

2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure: (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations, and rules.

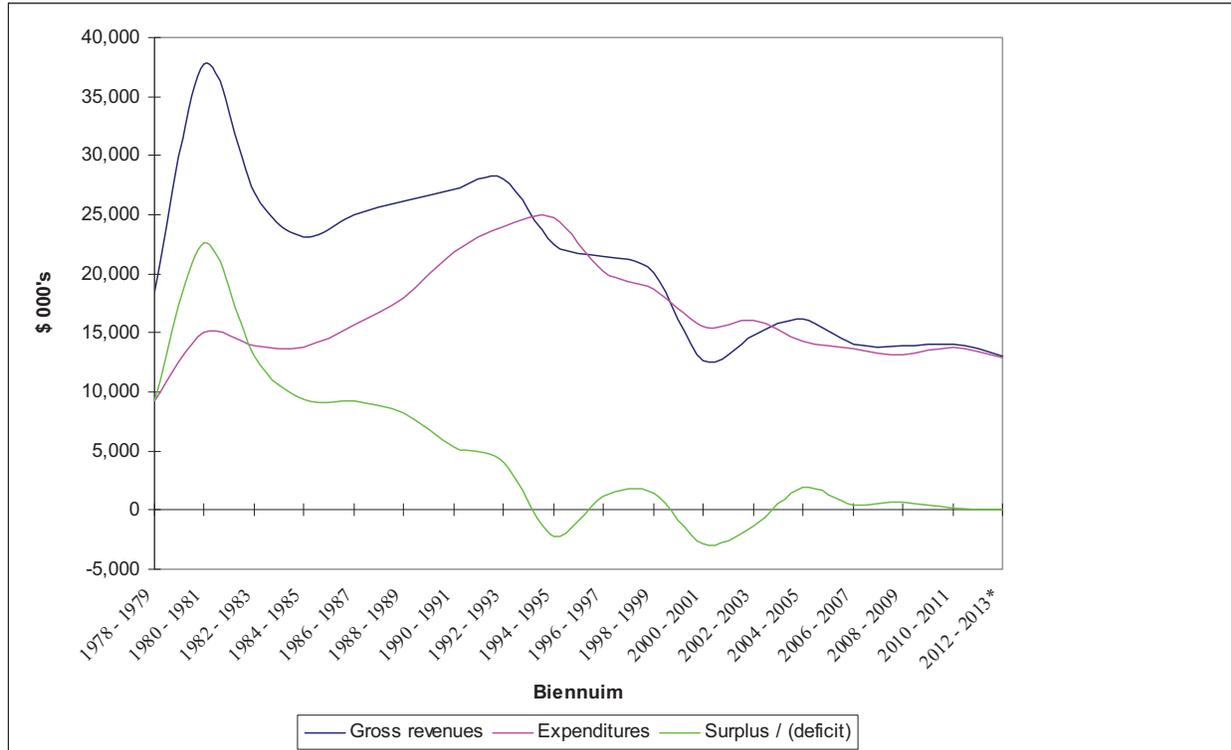
3. UNPA was established in 1950 with the primary objective of promoting the aims and activities of the United Nations to the rest of the world through stamps. UNPA is one of the organizational units under the Commercial Activities Service (CAS) of the Facilities and Commercial Services Division, where it is the one of the highest revenue earners for sale of services to the public (see Figure 1). Over the last three recent biennia UNPA revenues have averaged \$14 million per year and represent 32 per cent of revenues from services to the public.

Figure 1: Summary of gross revenues from services to the public



4. After a period of steady declines, UNPA revenues have stabilized since 2003 and net results have been positive. The trend in financial performance of UNPA is shown in Figure 2.

Figure 2: UNPA financial performance trend analysis 1978 - 2013



*=Budget Estimate

5. The present organizational structure of UNPA was established by the General Assembly in 1992 with an authorized staff complement of 40; there was an 18 percent vacancy rate as of October 2011. UNPA operations are consolidated in two entities: the New York office and the European office, located in Vienna. UNPA had an approved budget of \$15 million for the 2010-2011 biennium.

6. Comments provided by UNPA are incorporated in *italics*.

II. OBJECTIVE AND SCOPE

7. The audit was conducted to assess the adequacy and effectiveness of UNPA's governance, risk management and control processes in providing reasonable assurance regarding **promoting the aims and activities of the United Nations to the rest of the world through stamps, and generating revenue from sales of stamps and related products.**

8. UNPA was selected for an audit in 2011 primarily because it is one of the few revenue producing areas of the United Nations and the last audit of UNPA was in 2005 (AH2005/513/02).

9. The key controls tested for the audit were: (a) risk management and strategic planning; (b) integrated programme and financial management reporting system; and (c) regulatory framework. For the purpose of this audit, OIOS defined these key controls as follows:

- (a) **Risk management and strategic planning** - controls that provide reasonable assurance that the risks and opportunities relating to the activities of UNPA are identified and assessed, and that action is taken to mitigate the risks and seize opportunities.

(b) **Integrated programme and financial management reporting system** - controls that provide reasonable assurance that a system exists to report programme performance of UNPA regarding its primary mandates timely, accurately and completely.

(c) **Regulatory framework** - controls that provide reasonable assurance that adequate and effective procedures exist to guide the operations of UNPA in its compliance with agreements with postal unions as well as rules and regulations of the United Nations on the acquisition and management of stamps, safeguarding and archiving of valuable collections, and recording of sales or disposal of philatelic products.

10. The key controls were assessed for the control objectives as shown in Table 1. Certain control objectives (shown in Table 1 as “Not assessed”) were not relevant to the scope defined for this audit.

11. OIOS conducted the audit from April 2011 to February 2012 in New York. The audit covered the period from January 2009 to July 2011.

12. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

13. UNPA’s governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding **promoting the aims and activities of the United Nations to the rest of the world through stamps, and generating revenue from sale of stamps and selected products**. OIOS made eight recommendations in the report to address issues identified in the audit. UNPA controlled its expenditures through close monitoring and reviews of costs on a regular basis. In addition, UNPA had broad strategies to address its identified risks; however there were inadequate mechanisms to review and monitor progress on strategic initiatives to increase revenues and to assess the effectiveness of UNPA activities in achieving its mandate. Inventory of stamps was excessive and not adequately monitored, reported and controlled. Accounts receivable were not being reported completely, and controls over the approval and management of credit sales were inadequate. UNPA has initiated action to implement audit recommendations to improve controls over strategic initiatives, inventory and accounts receivable.

14. The initial overall rating was based on the assessment of key controls presented in Table 1 below. The final overall rating is **partially satisfactory** as implementation of six important recommendations remains in progress.

Table 1: Assessment of key controls

Business objectives	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Promoting the aims and activities of the United Nations to the rest of the world through stamps	(a) Risk management and strategic planning	Partially satisfactory	Partially satisfactory	Not assessed	Satisfactory
	(b) Integrated programme and financial management reporting system	Partially satisfactory	Partially satisfactory	Not assessed	Partially satisfactory
	(c) Regulatory framework	Partially satisfactory	Partially satisfactory	Not assessed	Satisfactory
Generating revenue from sale of stamps and related products	(a) Risk management and strategic planning	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(b) Integrated programme and financial management reporting system	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(c) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Risk management and strategic planning

UNPA did not detail action plans to implement its overall strategy and report on the outcomes of strategic initiatives

15. In budgets and marketing/business plans, UNPA analyzed market conditions and risks (e.g. global economic downturn, ageing collector base, closure of the postal counter in New York due to the Capital Master Plan (CMP) project etc.), which may impact on its ability to sustain revenues. UNPA developed broad strategies to address these risks including developing new market opportunities in non-traditional business areas, setting up an effective e-commerce business arm and leveraging UN public relations network to expose UNPA to a broader base of people. However, it did not prepare detailed plans to specify the actions to be undertaken, timeframes within which these strategies would be implemented, and how the success of the initiatives would be assessed. Further, UNPA reports to the Chief, CAS only focused on reviews of some accounts receivables, expenses and administrative issues; there were no reports on the outcomes of strategic initiatives. This limited the opportunity to review and direct actions to be taken by UNPA to improve revenue generation.

Need for further development of identified growth areas

16. The Secretary-General's report A/55/546 on proposed measures to improve profitability of commercial activities of the United Nations identified the need for a systematic development of new philatelic customers. Subsequent to the report, the 2008-09 budget proposal as well as 2008-09 and 2010

marketing plans identified personalized stamp sales and internet sales as potential growth areas and noted that personalized stamps had proven popular with visitors at Headquarters and were being considered for expansion into European operations. However, plans to roll out sales of personalized stamps to the European offices were only in their infancy and UNPA revenues from personalized stamp sales had dropped from the highs achieved in 2007 to 6 per cent of revenues. Internet sales were at an even lower level of 1 per cent as there had been limited use of e-commerce to drive sales (See Figure 3 and Table 2). Consequently, both revenue sources had not achieved their generally perceived potential.

Figure 3: Trend of personalized stamp sales

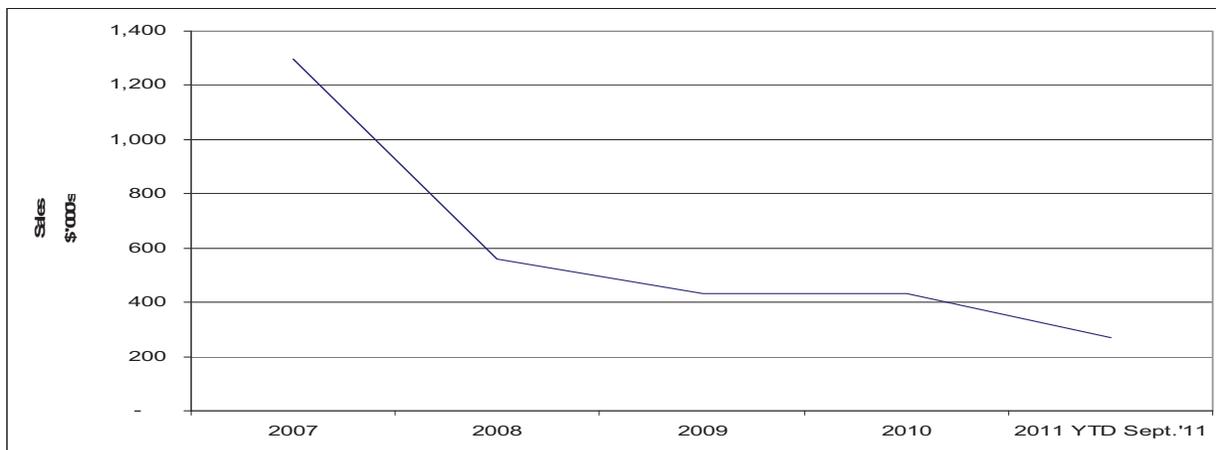


Table 2: Sales by source for 2008 – 2010

Revenue Source	Total sales \$	Percentage of total revenues
Customer Deposit Accounts	9,811,715	44%
Dealer Sales	3,560,140	16%
Regular Order Sales	3,395,054	15%
Counter Sales	2,053,585	9%
Personalized Stamp Sales	1,423,815	6%
Consignment Agency Sales	928,176	4%
Show Sales	536,206	2%
Internet Sales	216,599	1%
Other income	171,013	1%
Total	22,096,304	

17. Although sales of personalized stamps are an effective way of reaching to the non-collector audience and spreading the mandate of UNPA, it is unlikely they will grow to replace bulk sales to established customers. Nevertheless, in order to continue to be self-sustaining and broaden the reach of its mandate, UNPA must pursue alternate and identified courses of action to increase sales.

(1) OCSS should develop detailed action plans to implement the overall United Nations Postal Administration strategies to explore and promote additional sources of revenue, and monitor and report on the outcomes of such initiatives.

OCSS accepted recommendation 1 and stated that a detailed UNPA Business and Marketing Plan was developed in late 2011 to address the 2012 – 2013 biennium. The plan was modified in early 2012 to include additional reporting mechanism as per recommendation of OIOS.

Recommendation 1 remains open pending receipt of evidence that the outcomes of UNPA strategies are being monitored and reported.

B. Integrated programme and financial management reporting system

The reach and effectiveness of UNPA activities were not measured

18. The primary business objective and “raison d’être” of UNPA is the promotion of the activities of the United Nations through the sale of stamps. It follows therefore that for this objective to be met, the sales of stamps should be to the widest possible audience. The reach should be targeted and measured, and satisfaction of UNPA customers should be regularly monitored to identify changing preferences and areas for improvement. However, UNPA only monitored effective reach indirectly through the number of stamps sold and informal compliments at shows or in customer correspondence.

19. This was contrary to the 2010 marketing plan, which included plans to insert survey forms in the bi-monthly bulletins published by UNPA, to obtain in-depth customer information and market intelligence. The bulletins for the last two years did not contain survey forms, and no alternate surveys were carried out. Without surveys, there were no means of quantitatively measuring the progress of UNPA towards its primary mandate and the satisfaction of its existing audience.

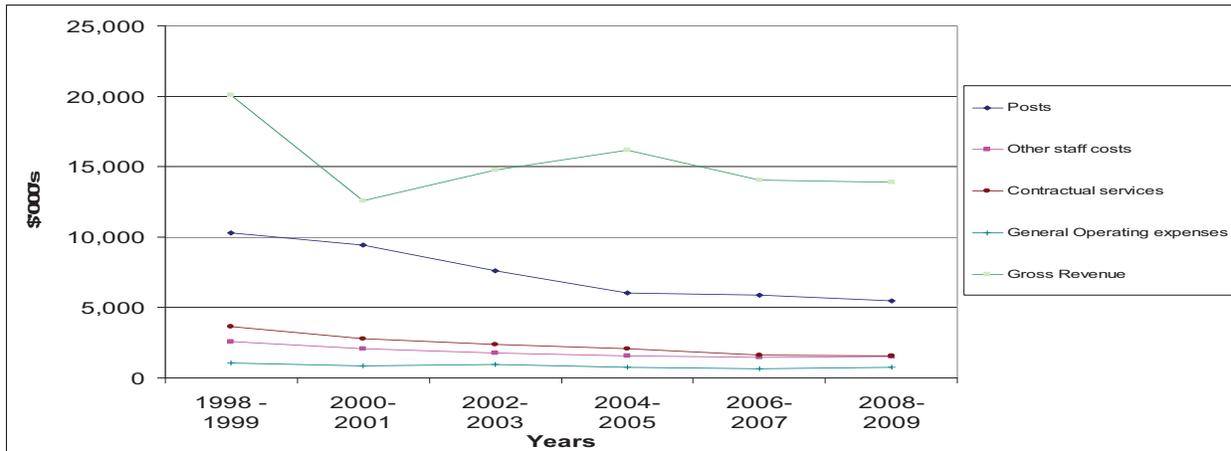
(2) OCSS should target and obtain information on the reach of the activities of the United Nations Postal Administration and on the satisfaction of its customers, and use the results to formulate better strategies to achieve its mandate.

OCSS accepted recommendation 2 and stated that a comprehensive customer feedback plan had been developed and was being implemented. The plan includes customer surveys of UN visitors, web site customers and long standing UN stamp collectors. The results will be shared with OCSS management and UNPA staff beginning in September 2012. Recommendation 2 remains open pending completion of the report on the first customer feedback survey.

Expenditure was adequately monitored

20. In compliance with standard United Nations reporting requirements, UNPA carried out consolidated reviews of its financial performance annually and provided narrative justifications for each line of expenditure in the biennial programme budgets. Meetings were held to review costs on a regular basis, resulting in decreases in expenditures (See Figure 4).

Figure 4: Revenue and expenditure trends of UNPA



Credit limit controls were not properly enforced for all accounts

21. No overall accounts receivable report was produced and UNPA could not provide the total balance of accounts receivable despite several requests. While there was an ageing analysis of the overseas consignment agencies account, there was no single consolidated report for all the various accounts receivable, which included customer deposit accounts, regular order sales and direct agency sales.

22. An amount of \$93,698 was due from a direct sales customer. The last payment on this account was in April 2008, when the amount owing was \$33,785. However, UNPA continued to process additional sales orders of \$120,657 on this account from 29 April 2008 to 26 May 2009 while no payments were being received and all subsequent movements on the accounts were adjustments e.g. stock returns. UNPA has requested the Office of Legal Affairs to assist in recovering the balance owed. The manner in which the debt was accumulated however, did not demonstrate the existence of good credit controls. Furthermore, outstanding balances from direct sales customers were excluded from the ageing analysis of accounts receivable and were not monitored quarterly as part of the review of UNPA results. Without a complete reporting of accounts receivable, a complete picture of amounts owing was not obtained and monitored.

23. The overseas consignment agencies stock accounts and accounts receivable were reconciled quarterly. OIOS was informed that an ageing analysis was only produced for the overseas consignment accounts receivables because all other accounts receivable were due almost immediately after invoicing. The ageing of accounts receivable balances for overseas consignments as of September 2011 was as follows:

Table 3: Ageing analysis of overseas consignment accounts receivable

Age (Months)	Amount \$
0 – 6	43,377
6 – 12	52,362
12 – 24	270
>24	3,608
Total	99,617

Approvals for credit limits not documented

24. Sales to some customers were made in excess of credit limits and without documented approval. The established procedure for granting credit is that the default credit limit on all accounts is \$8, but approval is required for additional credit above that amount. A review of a sample of five overseas consignment accounts receivable balances showed that there were no specific approvals documented for accounts with credit balances above the \$8 default credit limit. Examples were an account with a credit limit of \$300,000, and another with a credit limit of \$8, but for which the balance as of September 2011 was \$48,319.

(3) OCSS should implement tighter credit control policies, which include requiring all credit limits to be formally approved and enforced by the United Nations Postal Administration, and periodically producing and reviewing the complete list of all accounts receivable together with the associated credit limits, with a view to identifying and addressing balances that are not recoverable.

OCSS accepted recommendation 3 and stated that UNPA had conducted an initial review of all accounts receivable and was in the process of revising all credit limits to better reflect current sales volumes of the respective accounts. Recommendation 3 remains open pending notification of the actions taken to strengthen credit control policies.

C. Regulatory framework

Absence of stock status monitoring and reporting

25. There was no single report that contained the total value of the stocks of stamps and philatelic products held by UNPA. The stocks were recorded at full retail value in the Megastamp system. The retail values of stock held in selected major stockrooms as at 31 October 2011 are listed in Table 4.

Table 4: Balances in major stock rooms as at 30 October 2011

Stock room	Description	Stock Value \$
301	Main stock room	22,385,056
393	Off sale stock room	24,437,533
302	Operational stock room	3,903,197
303	Preparatory stock room	614,029
309	Archives historical stock room	553,480
349	Archives working stock room	510,653
Total		52,403,948

26. This level of stocks represented at least seven years' worth of sales using the average annual sales revenue since 1998 (\$7.3 million). Although the cost of printing the stamps is relatively negligible compared to the sales value, with stocks of this significant sales value being held, there was a need to monitor stock levels and keep track of significant changes. Of particular concern were the stamps classified as "off sale stamps"; these are stocks of stamps no longer on sale but kept in storage. While a test count of the stock showed no discrepancies between the records and the physical inventory, the entire stockholding was not subject to regular counts nor was access to the stock properly controlled. Physical access controls could be strengthened by introducing dual access controls to all bulk storage rooms.

27. While there had been a reduction in the quantities of stamps being printed since 2008, the level of stock holdings was still a matter of concern. For instance it was noted that stamps with a sales value of \$2,613,347 were destroyed after they had been damaged due to improper storage. Reduction in quantities of materials being stored will make adequate and proper storage of products easier.

28. Inventory records are important to guide management decisions especially in determining the quantity of new stocks that should be ordered to avoid excessive stock holdings which create attendant storage problems. It is also important to monitor stamp stock because as quasi-cash items, they are easy to sell and losses may not be promptly recognized. In addition, without a global stock report on levels of inventory, it is not possible for management to be aware of mounting inventories to take prompt corrective action.

(4) OCSS should ensure that the values of stocks of stamps are included in the United Nations Postal Administration's management reports to enable closer monitoring of the stamps inventory and for informing management on future decisions relating to stamp acquisitions.

OCSS accepted recommendation 4 and stated that the information was currently available and will be updated and reviewed semi-annually with the OCSS management. Recommendation 4 remains open pending receipt of management reports that include the values of stocks of stamps.

(5) OCSS should carry out a complete review of the stock of stamps to determine the acceptable level of stocks the United Nations Postal Administration needs to hold and decide on what to do with any determined surplus.

OCSS accepted recommendation 5 and stated that a review was conducted as part of the annual verification in April and May 2012. As a result, a 15 percent reduction in "off sale stock" is expected. A stamp destruction request will be submitted to the Headquarters Property Survey Board (HPSB) in July with destruction of stock completed by 31 August 2012. Recommendation 5 remains open pending submission of the results of the review of the stocks of stamps and the final destruction request to HPSB.

(6) OCSS should strengthen physical access controls over the stock of stamps held by the United Nations Postal Administration.

OCSS accepted recommendation 6 and stated that UNPA had sent a request to the Department of Safety and Security for a review of the current security controls. Recommendation 6 remains open pending notification of the actions taken to strengthen the physical access controls over the stock of stamps.

Ineffective stock destruction controls

29. UNPA destroyed stocks for various reasons ranging from excess inventory held to when material is found to be unsuitable for sale. A destruction committee was constituted for stamp destructions, which was independent from the day to day operations. Under the United Nations Financial Regulations and Rules (Rule 105.22) all disposals of assets of the United Nations should be approved by HPSB. The UNPA manual of procedures allows for two kinds of destructions: (a) where the materials are

philatelically unacceptable for sale and rejected, but not returned to the vendor; and (b) where materials are not accepted into the UN inventory and returned immediately to the vendor. In the case of the former, the UNPA procedures manual requires the Chief, UNPA to issue instructions for the destruction of the entire printing in lieu of returning the rejected stamps to the vendor, and a complete replacement shall be provided by the printer at no additional cost to the United Nations. The manual provides that such destruction cases do not require the approval of HPSB. The provisions of the manual and the related destructions by UNPA were contrary to Financial Rule 105.22

(7) OCSS should amend the United Nations Postal Administration procedures to comply with the requirements of the Financial Regulations and Rules and require the Headquarters Property Survey Board’s approval for all asset disposals.

OCSS accepted recommendation 7 and stated that the UNPA manual of procedures had been revised to comply with the Financial Regulations and Rules as relates to the requirement for HPSB approval for all asset disposals. Based on the action taken by OCSS, recommendation 7 has been closed.

30. There was no proper audit trail of stamps destroyed in the last two years and this did not facilitate reconciling actual destructions with what was originally approved by HSPB. (See table 5 below).

Table 5: 2010 Stock destroyed after HPSB approval

Stock log #	Reference	Approved value \$	Value at time of destruction \$	Difference \$
21342	5028/9 - 5029/9	186,551	187,097	546
21350	5030/9 - 5031/9	962,990	1,024,024	61,034
21469	5001/10 – 5002/10	557,428	559,702	2,274
21487	5003/10 – 5004/10	338,242	358,324	20,082
21512	5005/10 – 5006/10	44,061	46,092	2,031
21542	5007/10 - 5008/10	30,326	30,411	85
Total		2,119,598	2,205,650	86,052

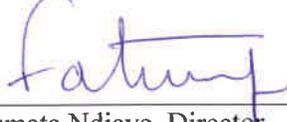
31. The differences between the stock values approved for destruction and the values of stock destroyed were attributed to exchange rate fluctuations for stamps denominated in foreign currencies, but there was no reconciliation or documentation to show this. Without proper documentation and audit trail, destructions may include materials unauthorized for destruction.

(8) OCSS should maintain detailed audit trails including face values for all stamps destroyed to facilitate reconciliation with the required approvals.

OCSS accepted recommendation 8 and stated that new procedures had been adopted regarding stamp destruction and the new procedure was applied for the first time on 3 March 2012. A detailed summary for each destruction session will be shared with OCSS management. Based on the action taken by OCSS, recommendation 8 has been closed.

IV. ACKNOWLEDGEMENT

32. OIOS wishes to express its appreciation to the Management and staff of UNPA for the assistance and cooperation extended to the auditors during this assignment.



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STATUS OF AUDIT RECOMMENDATIONS
Audit of the United Nations Postal Administration

Recom. no.	Recommendation	Critical ¹ / important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	OCSS should develop detailed action plans to implement the overall United Nations Postal Administration strategies to explore and promote additional sources of revenue, and monitor and report on the outcomes of such initiatives.	Important	O	Submission of evidence that the outcomes of UNPA strategies are being monitored and reported.	31/07/2012
2	OCSS should target and obtain information on the reach of the activities of the United Nations Postal Administration and on the satisfaction of its customers, and use the results to formulate better strategies to achieve its mandate.	Important	O	Submission of the report on the first customer feedback survey.	30/10/2012
3	OCSS should implement tighter credit control policies, which include required and credit limits to be formally approved and enforced by the United Nations Postal Administration, and periodically producing and reviewing the complete list of all accounts receivable together with the associated credit limits, with a view to identifying and addressing balances that are not recoverable.	Important	O	Submission of evidence showing the actions taken to strengthen credit control policies.	31/07/2012
4	OCSS should ensure that the values of	Important	O	Submission of the next quarterly	31/07/2012

¹ Critical recommendations address significant and/or pervasive deficiency or weakness in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

² Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

³ C = closed, O = open

⁴ Date provided by OCSS in response to recommendations.

Recom. no.	Recommendation	Critical/ ¹ / important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
5	stocks of stamps are included in the United Nations Postal Administration's management reports to enable closer monitoring of the stamps inventory and for informing management on future decisions relating to stamp acquisitions. OCSS should carry out a complete review of the stock of stamps to determine the acceptable level of stocks the United Nations Postal Administration needs to hold and decide on what to do with any determined surplus.	Important	O	management reports that include the values of stocks of stamps. Submission of the results of the review of the stocks of stamps and the final destruction request to HPSB.	31/08/2012
6	OCSS should strengthen physical access controls over the stock of stamps held by the United Nations Postal Administration.	Important	O	Submission of notification of the actions taken to strengthen the physical access controls to the stock of stamps.	30/09/2012
7	OCSS should amend the United Nations Postal Administration procedures to comply with the requirements of the Financial Regulations and Rules and require the Headquarters Property Survey Board's approval for all asset disposals.	Important	C	Action completed	Implemented
8	OCSS should maintain detailed audit trails for all stamps destroyed to facilitate reconciliation with the required approvals.	Important	C	Action completed	Implemented