

EXECUTIVE SUMMARY

A. Introduction

The Department of Environment and Natural Resources (DENR) was formerly known as the Department of Agriculture and Natural Resources (DANR). In May 1974, under Presidential Decree (PD) No. 461, the DANR was reorganized into the Department of Agriculture (DA) and Department of Natural Resources (DNR). In 1978, a shift to the parliamentary form of government led to the renaming of the DNR to the Ministry of Natural Resources (MNR). Executive Order (EO) No. 131 was issued on January 30, 1987 creating the Department of Energy, Environment and Natural Resources (DEENR), taking over the powers of the MNR. The DEENR was reorganized on June 10, 1987 under EO No. 192, renaming it as the Department of Environment and Natural Resources (DENR) while transferring energy matters to the Office of the President.

The Department is mandated to conserve, manage, develop, and ensure proper use of the country's environment and natural resources, specifically forest and grazing lands, mineral resources, including those in reservations and watershed areas, and lands of the public domain, as well as the licensing and regulation of all natural resources, as may be provided for by law, for equitable sharing of the benefits derived therefrom for the welfare of the present and future generations of Filipinos.

The DENR has the following strategic objectives that serve as basis for policy formulation:

- a. Assure the availability and sustainability of the country's natural resources through judicious use and systematic restoration or replacement, whenever possible;
- b. Increase the productivity of natural resources in order to meet the demands for forest, mineral and land resources of a growing population;
- c. Enhance the contribution of natural resources for achieving national economic and social development;
- d. Promote equitable access to natural resources by the different sectors of the population; and
- e. Conserve specific terrestrial and marine areas representative of the Philippine natural and cultural heritage for present and future generations.

The Department is also tasked to formulate and implement policies, guidelines, rules and regulations relating to environmental management and pollution and control. It formulates, implements and supervises the government's policies, plans and programs pertaining to the management, conservation, development, use and replenishment of the country's natural resources and ecological diversity. DENR also promulgates and implements rules and regulations governing the exploration, development, extraction, disposition, and use of forests, lands, minerals, wildlife and other natural resources.

It is headed by a Secretary and assisted by five Undersecretaries and seven Assistant Secretaries. The DENR-Office of the Secretary (DENR-OSEC) consists of a Central Office

(CO), 16 Regional Offices (ROs), 77 Provincial Environment and Natural Resources Offices (PENROs), 156 Community Environment and Natural Resources Offices (CENROs) and four Staff Bureaus (Forest Management Bureau, Land Management Bureau, Biodiversity Management Bureau and Ecosystems Research Development Bureau).

Pasig River Coordination and Management Office (PRCMO)

In 2019, E.O. No. 90 was issued amending E.O. No. 54 (s. 1999) transferring the Chairmanship of the Pasig River Rehabilitation Commission from the Office of the President to the Department of Environment and Natural Resources, and for other purposes.

By virtue of EO No. 93 dated November 8, 2019, the then Pasig River Rehabilitation Commission (PRRC) was disestablished and the Pasig River Coordination and Management Office (PRCMO) was created, as one of the Offices of the DENR. However, the Functions of PRRC, including all necessary and incidental powers thereof, pursuant to EO No. 54, as amended, were not fully transferred to the DENR but also to the following agencies and offices: The Manila Bay Task Force, Department of Human Settlement and Urban Development (DHSUD), Metro Manila Development Authority (MMDA) and the Department of Public Works and Highways (DPWH).

The Pasig River Coordination and Management Office that implement its mandated functions including the two (2) Foreign-assisted Projects, the Forestland Management Project (FMP) and Integrated Natural Resources and Environmental Management Project (INREMP).

Foreign-assisted projects implemented by the DENR

The Forestland Management Project (FMP) and Integrated Natural Resources and Environmental Management Project (INREMP) are the two foreign-assisted projects managed by the Foreign-Assisted and Special Projects Services (FASPS) of the DENR.

The FMP aims to strengthen forestland management in three critical river basins through the implementation of collaborative and comprehensive Community-Based Forest Management (CBFM) strategies. Its implementation period is for ten years effective July 3, 2012 to July 3, 2022.

The INREMP, on the other hand, is a seven-year project from August 9, 2013 to December 31, 2020. It aims to manage the upper river basins and component watersheds to support poverty reduction, watershed management, biodiversity conservation and climate change policy objectives with emphasis on developing the capacities of the local governments, institutions and upland communities as development partners.

Moreover, the DENR has two (2) flagship programs, the National Greening Program (NGP) mandated under Executive Order No. 26, series of 2011 and expanded through E.O. No. 193, series of 2015, and the Manila Bay Rehabilitation Program mandated through Supreme Court Order on December 18, 2008 under G.R. 171947-48.

National Greening Program

The NGP was implemented by virtue of Executive Order (EO) No. 26 dated February 24, 2011. The program was anchored on the government's goal of reducing poverty, ensuring food security, conserving the environment and biodiversity, and enhancing climate change mitigation and adaptation. It also seeks to improve water quality in rivers and irrigation for farm lands, reduce the potential for flooding, soak up carbon dioxide out of the atmosphere, and lay the foundation for an expanded wood-products economy. The NGP aims to plant 1.5 billion trees in about 1.5 million hectares within a period of six years from 2011 to 2016.

To sustain the gains of reforestation and attain the intended long term outcome, EO No. 193 was issued on November 12, 2015, expanding the coverage of the NGP (enhanced NGP) to include all the remaining unproductive, denuded and degraded forest lands and extending its implementation from 2016 to 2028.

Manila Bay Rehabilitation Program

On December 18, 2008, the Supreme Court in a landmark decision issued a mandamus ordering 13 government agencies “to clean up, rehabilitate and preserve Manila Bay, and restore and maintain its waters to SB level [Class B] sea waters per Water Classification Tables under DENR Administrative Order No. 34 (1990)] to make them fit for swimming, skin-diving and other forms of contact recreation (G.R. Nos. 171947-48).” The issuance of DENR Administrative Order (DAO) No. 2011-01 entitled “Strengthening the Manila Bay Coordinating Office (MBCO)” is one of the strategies under the Manila Bay operational plan. The DAO designated three DENR Regional Executive Directors (RED), who have jurisdiction over the Manila Bay as Regional Coordinators and Heads of their own reconstituted Manila Bay Site Coordinating/Management Office (MBSCMO).

On February 19, 2019, President Rodrigo R. Duterte issued Administrative Order No. 16, “*Expediting the Rehabilitation and Restoration of the Coastal and Marine Ecosystem of the Manila Bay and Creating the Manila Bay Task Force*”. The Task Force members shall perform their functions in accordance with their agency mandates and as prescribed in the Writ of Continuing Mandamus issued by the Supreme Court.

As of December 31, 2020, the Department has a total manpower complement of 27,943 personnel, consisting of 17,711 regular personnel, 1,079 co-terminus, 223 casual, 29 contractual and 13,370 Contract of Service/Job Order personnel.

B. Financial Highlights

The agency's financial position, financial performance and sources and application of funds for Calendar Year (CY) 2020 compared with CY 2019 are as follows:

Particulars	2020 (in million Pesos)	2019 Restated
Financial Position		
Assets	57,662.710	55,572.137
Liabilities	2,852.874	5,232.791
Net Assets/Equity	54,809.836	50,339.346
Financial Performance		
Revenue	1,161.794	1,487.407
Current Operating Expenses	13,215.768	14,376.78
Surplus (Deficit) from Current Operations	(12,053.974)	(12,889.368)
Net Financial Assistance/Subsidy	15,752.958	20,742.881
Sale of Assets	0.285	1.426
Miscellaneous Income	32.612	12.278
Gains	7.099	13.760
Losses	(121.199)	(23.684)
Surplus (Deficit) for the Period	3,617.780	7,857.293
Sources and Application of Funds		
Appropriation	19,006.688	18,327.646
Allotment	17,525.277	18,327.646
Obligations Incurred	15,959.601	17,823.813
Unexpended Balance	1,565.676	503.833

C. Scope and Objectives of Audit

The audit covered the accounts and financial transactions of the DENR for CY 2020. The audit was conducted to (a) ascertain the level of assurance that may be placed on management's assertions on the financial statements; (b) determine the propriety of transactions as well as the extent of compliance with applicable laws, rules and regulations; (c) recommend agency improvement opportunities; and (d) determine the extent of implementation of prior years' audit recommendations.

D. Independent Auditor's Report

We do not express an opinion on the Financial Statements (FS) due to uncorrected misstatements in an aggregate amount of ₱1,216.924 million, which exceeds the materiality level of ₱306.964 million, and various accounting deficiencies such as non-maintenance of Subsidiary Ledgers and lack of complete accounting records on various FS accounts with an aggregate amount of ₱13,310.877 million, which prevented alternative audit procedures to be undertaken to obtain sufficient and appropriate evidence to prove the management's assertions on the various FS accounts, where the possible effect could be material and pervasive, as discussed in detail in Part II of this report.

E. Significant Observations and Recommendations on Compliance to Other Legal and Regulatory Requirements

1. Overall, the department's fund utilization of ₱15,959.601 million is 91.07 percent compared to its appropriation/allotment of ₱17,525.277 million, leaving an overall balance of ₱1,565.676 million at year-end due to the non-implementation of some of the agency's programs, projects and activities during the year in view of the various community quarantines measures that the government imposed. ***(Observation No. 2)***

We recommended and the Management of DENR agreed to:

- a. cause the full utilization of unobligated allotments for CY 2020 PPAs, which are not yet implemented to realize optimum results and benefits on their completion as timely as intended.
 - b. direct the officials responsible for the implementation of programs and projects of the MBRP, ENGP, PRCMO and the two Foreign-Assisted Projects (FAPs), FMP and INREMP to ensure the timely implementation of the programs and projects to avoid non-utilization of allotments released for the above-mentioned programs/projects.
2. Of the ₱18,024.157 million Notice of Cash Allocations (NCAs) received, inclusive of the two major projects, the ENGP and MBRP, the PRCMO and the two Foreign Assisted Projects, FMP and INREMP, ₱16,898.037 million or 93.75 percent were utilized inclusive of payment of Accounts Payable, leaving an overall unutilized NCAs of ₱1,126.119 million or 6.25 percent. Moreover, cash utilizations were low in DENR CO, Regions IV-B and XI and PENROs Ilocos Sur and La Union. ***(Observation No. 3)***

We recommended and Management agreed to direct the Regional Executive Directors/ PENR Officers of:

- a. Regions IV-B and XI to henceforth maximize the utilization of NCAs released to their respective Regional Offices to:
 - i. closely supervise and monitor the work of the divisions charged with the implementation of the various activities of the Agency for a timely implementation of the P/A/Ps, as well as the Cashier, Budget and Accounting Sections as the administrative support to operations; and
 - ii. consider the future impact of the imposition of any community quarantine in the subsequent year's budget through a realistic estimation and to align the Monthly Cash Program with the new

budget estimates to come up with a more realistic forecasting and expenditures programming for an efficient management of the monthly cash allocation.

- b. PENROs Ilocos Sur and La Union to implement the activities, programs and projects as planned to ensure full and timely utilization of cash allocation for its intended purpose and to ensure the delivery of services to beneficiaries in a timely manner.
3. The DENR FAPs, two Bureaus, eight ROs and 51 PENROs have no dormant cash, unauthorized accounts and unnecessary bank accounts for reversion to the National Treasury. However, the FMB, three ROs and six PENROs did not revert its dormant cash, unauthorized accounts, unnecessary special and trust funds amounting to ₱23.623 million as of year-end, contrary to Permanent Committee Joint Circular No. 4-2012, dated September 11, 2012, implementing EO No. 431, dated May 30, 2005. Thus, the government was deprived of the available funds that could be used in its priority programs and projects. (*Observation No. 4*)

We recommended and Management agreed to require the FMB Bureau Director, Regional Executive Directors of CAR, ROs XII and XIII and six PENR Officers concerned to:

- a. revert the account to the general fund and correspondingly deposit the dormant/inactive/unauthorized cash balances to the Bureau of the Treasury (BTr). In the case of trust receipts, deposit the funds with the BTr under the Agency/Treasury Deposit - Trust; and
 - b. send confirmation letter to the respective Authorized Government Depository Banks (AGDB) of RO XII and PENRO Cebu to confirm the balance and trace the existence or history of bank accounts in the agency records, and deposit all existing account balances to the BTr.
4. Assessed revenues from the used/occupation of foreshore lands amounting to ₱35.124 million were not realized due to lack of collection enforcement and lapses in monitoring the collection efforts by the responsible officials, delayed appraisal of foreshore lease areas, and the absence of approved foreshore lease agreement (FLA), thus, deprived the government of the opportunity to collect such income, which can be used to fund the government's priority programs and projects. (*Observation No. 5*)

We recommended and Management agreed to direct the Regional Executive Directors and PNR Officers concerned of:

- a. the six PENROs to sustain their efforts/strategies to:

- i. optimize collections from foreshore lease and occupation fees such as sending bills and demand letters monthly/regularly; and
 - ii. develop effective strategies/mechanism/processes for an effective monitoring to ensure enforcement of DENR AO 2004-24 dated August 24, 2004 and other existing laws and guidelines on the use of foreshore lands;
 - b. PENROs Capiz and Misamis Occidental to facilitate the approval of the Foreshore Lease Agreement; and
 - c. PENRO Davao Oriental and Davao de Oro to intensify the conduct of inventory/survey of foreshore lands to facilitate processing of pending FLAs and identify unauthorized occupants/settlers.
5. Delayed/non-delivery of items procured from the Procurement Service-DBM (PS-DBM) and the Philippine International Trading Corporation (PITC) resulted in the accumulated balance of fund transfers amounting to ₱1.309 billion and ₱121.917 million, respectively. (*Observation No. 8*)

We reiterated our recommendation and Management agreed to:

- a. make representation with the PS-DBM and PITC to request for the immediate delivery of the undelivered supplies, equipment and services covered by the advances made by the DENR or require them to return the cost of all undelivered supplies, if said supplies and materials are no longer be needed by the Agency due to the lapse of time; and
 - b. stop the practice of procuring infrastructure and land improvement projects with the PITC instead enter into an agency-to-agency agreement with the DPWH or to implement the projects, either by administration or by contract, in accordance with the provisions in RA No. 9184
6. The DENR-CO, four Staff Bureaus, two FAPs, eight ROs and 44 PENROs insured with the GSIS physical assets amounting to ₱3,630.528 million with corresponding insurance premiums paid in the amount of ₱46.818 million, in accordance RA No. 656, otherwise known as the “Property Insurance Law” as amended by Presidential Decree (PD) No. 245 dated July 13, 1973. However, some physical assets of three staff Bureau, two FAPs, five ROs, and 21 PENROs in the total amount of ₱879.123 million were not insured against fire or theft with the General Insurance Fund (GIF) of the GSIS, thus, said Offices are at risk of not being indemnified in case of damage or loss of the assets. (*Observation No. 10*)

We recommended and Management agreed to direct the Heads of the Offices concerned to provide the necessary budget for the insurance premium sufficient to cover all insurable property and cause the application for insurance thereof in faithful compliance with Sections 5 and 11 of RA No. 656.

7. The absence of a clear cut policy in the management of the Confiscated/Abandoned/Seized Goods Inventory (CASGI) on confiscated forest products, conveyances, tools and equipment resulted in the inadequate implementation of confiscated products costing ₱46.563 million in DENR CO and 16 PENROs and undetermined losses to the government due to improper handling and custody of said confiscated assets, which exposes the assets to the risk of loss due to some custodial lapses while awaiting final disposition. Moreover, confiscated equipment amounting to ₱56.800 million were left idle due to lack of dispositive plan, which resulted in wastage of resources. **(Observation No. 12)**

We recommended and Management agreed to direct the concerned personnel of DENR CO and concerned Regional Executive Directors and PENR Officers of the 16 PENROs to:

- a. issue an order directing the personnel in-charge to ensure that proper care and storage are provided for the confiscated property to preserve their economic values for the government to obtain optimum benefits therefrom;
 - b. in coordination with the Director for Finance, propose budget for capital outlay and/or realign budget from MOOE for the construction of safety storage of confiscated assets; and,
 - c. conduct periodic physical count of seized property.
8. ERDB, three ROs and 15 PENROs submitted 3,717 government contracts and 3,359 purchase orders amounting to ₱429,469 million and ₱266.854 million, respectively, were submitted on time. However, 2,606 government contracts and 2,720 purchase orders amounting to ₱547.261 ₱1,218.103 million, respectively, were not submitted within the prescribed period, with delays ranging from one to 183 days while 725 contracts were not submitted to COA for review, as required under COA Circular No. 2009-001. Hence, precluding the timely review and evaluation of the contract documents, such that any defects could not be rectified immediately. **(Observation No. 14)**

We recommended and Management agreed to direct the Heads of Offices concerned to submit copies of perfected contracts and POs with all documents forming part thereof to the audit teams concerned within five (5) days from

execution/issuance prescribed in COA Circular No. 2009-01 to enable the timely review and evaluation of these contracts as well as the POs issued.

F. Enforcement of Settlement of Accounts

The non-enforcement of the provisions of the Revised Rules on the Settlement of Accounts (RRSA) issued by the Commission on Audit under COA Circular No. 2009-006 dated September 15, 2009 on the settlement of accounts resulted in the outstanding suspensions, disallowances and charges in the audit of various transactions amounting to ₱158.915 million, ₱229.882 million and ₱72.550 million, respectively, as of December 31, 2020.

G. Implementation of Prior Year's Audit Recommendations

Of the 73 prior year's audit recommendations, 41 were implemented and 32 were not implemented of December 31, 2020, 16 of which were reiterated in this report with modification, where appropriate.