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The discovery of \$42.6 million will be a welcome one-time infusion into next year's

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Wednesday. "\$42.6 million is a lot to fall through the cracks."

The account in question is one of many so-called special funds that the city sets up to keep grant money from various regional, state and federal agencies from mixing with other city money, City Administrative Officer Miguel Santana said. In theory, the city allocates money to a fund so a department has cash to start a project. Once the grant arrives, the department reimburses the city.

But from 1995 to 2011, the city was reimbursed from the transportation grant fund only twice, according to a City Council memo. The money grew in a fund that was not audited or examined. The budget office does not know why, it said, because senior officials who managed the budget during those years have retired or resigned.

City Controller Wendy Greuel, who is running for mayor, said her office is auditing about 600 special funds but had not yet looked at the transportation grant fund. She now plans to put the audit "on the front burner," a campaign spokeswoman said.

Each year, Santana's office tallies any discrepancies in the general fund budget. Special funds do not go through the same process; departments are responsible for those.

Santana has since told his staff to examine other special funds, including investigating when they were last audited. He said the department's failure to see the nearly \$43 million seemed to be the result of inadequate technology and — after auditors took early retirement during budget cuts — a lack of institutional knowledge.

"When all your focus is on providing resources and surviving another year, proactive review of our fiscal management can get lost in there," Santana said.

The city will soon have more sophisticated computer software that recognizes

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that the grant fund contained \$175 million — about four times as much as is recommended, General Manager Jaime de la Vega said. That began an accounting investigation into 11,000 transactions over the fund's 17-year existence.

“We are glad the money's there now, but it should have gone toward public services during the toughest years of the recession,” said Ian Thompson, a spokesman for Service Employees International Union, Local 721, a labor union that represents 10,000 city workers.

In previous Department of Transportation audits, Greuel alluded to problems with how the department handled grants. In a 2010 audit of the department's Recovery Act funding, Greuel said current rules did not guarantee that the department would reimburse the city in a timely manner.

“Management should implement a process to ensure that all costs incurred are reimbursed to the correct funding source on a monthly or bimonthly basis,” Greuel wrote.

The next year, a departmental questionnaire that De la Vega signed and sent to the controller's office identified three weaknesses in the department. Handling grants was not among them.

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