



STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>

June 6, 2008

Mr. William Ward, Sr.
Board Chair
Sandhills Community Action Program, Inc.
P.O. Box 151
Hamlet, NC 28345

Ms. Nezzie Smith, Director
Sandhills Community Action Program, Inc.
P. O. Box 937
Carthage, NC 28327

RE: State Grants from the Department of Health and Human Services
State Fiscal Year 2006, \$725,910
State Fiscal Year 2007, \$983,695
State Grants from the Department of Agriculture and Consumer Services
State Fiscal Year 2006, \$72,495
State Fiscal Year 2007, \$68,668

Dear Mr. Ward and Ms. Smith:

We have completed an examination employing certain procedures¹ described below at the Sandhills Community Action Program, Inc. related to its management of State grant funds. The examination was completed in December 2007. The objective of the examination was to identify whether any deficiencies in internal control; instances of noncompliance with laws, regulations, and provisions of contracts or grants agreements; and/or deficiencies in the management of financial resources existed.

Our procedures consisted of, but were not limited to, interviewing personnel; examining accounting and other grant records for the purpose of identifying state grant transactions; examining documentation supporting selected transactions and balances; reviewing available policies and procedures; and reviewing available board minutes.

¹ These procedures do not constitute an audit, examination or a review as described in professional standards governing those types of services. Furthermore, our procedures were not agreed upon by you or any third party. Our procedures do not provide a basis for providing any level of assurance regarding internal control, compliance or financial management and should not be relied upon for that purpose.

June 6, 2008
Mr. William Ward
Ms. Nezzie Smith
Page 2 of 13

The results of the examination conducted during August 2007 through March 2008 disclosed internal control deficiencies, instances of noncompliance and/or other matters of concern that are described in the attached findings and recommendations.

The final letter, including your written response to the findings, will be published on-line at www.ncauditor.net. You and others who are interested in the publication should register on the web site to receive an email notification and a link to the publication as soon as it is available.

This letter is intended solely for the information and use of the management of the Sandhills Community Action Program, Inc., the Governor, the General Assembly, and grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

LWMjr/jef

Attachment

CC: Commissioner Steve Troxler
Department of Agriculture and Consumer Services
Secretary Dempsey Benton
Department of Health and Human Services
Ms. Laketha Miller, Controller
Department of Health and Human Services

Sandhills Community Action Program, Inc.

FINDINGS AND RECOMMENDATIONS

Overview: Sandhills Community Action Programs, Inc. (Sandhills) is a non-profit organization providing coordination of services and financial support to eligible low income individuals and families in Anson, Montgomery, Moore, and Richmond Counties. Sandhills' grant funds assist low income families in need of housing assistance, home repair, and food commodities. In fiscal years 2006 and 2007, Sandhills received grant funds from:

▪ **Department of Health and Human Services (DHHS):**

DHHS Office of Economic Opportunity

- **Community Services Block Grant: (CSBG)** - *The grant is a family self sufficiency program to empower low income families to rise above the poverty guidelines. The grant funds provide staffing to assist low income families to find housing and support services.*
- **Weatherization/HARRP Grant (WX/HARRP)** - *The grant is split into two programs. (1) Weatherization provides home weatherization by improving door and window seals ,etc. (2) HARRP (heating and air repair replacement program) provides funding to repair cooling/heating systems for income eligible families/individuals. The grant funds cover the cost of contracted repairs and minimal administrative costs.*
- **Emergency Shelter Services (EM Shelter)** - *The grant provides emergency overnight housing for approximately 44 homeless families/individuals.*

DHHS Division of Public Health

- **Housing Opportunities for Persons with Aids (HOPWA)** - *The grant provides tenant-based rental assistance to people living with HIV/AIDS and their families.*

- **Department of Agriculture and Consumer Services, Food Distribution Division:** *The grant provides funds to pay for storage of and to distribute food commodities made available by the USDA.*

Review of monitoring reports from the Office of Economic Opportunity show minor findings in program compliance for services delivered to clients and concerns over the timeliness of filing monthly financial reports. The Division of Public Health also had concerns regarding Sandhills' continued delinquency in filing reports. In 2007, the Division of Public Health placed Sandhills in the high risk category for failure to submit required reports in a timely manner, later removing it from the high risk category after it demonstrated improvement in filing timely reports. The Department of Agriculture monitored Sandhills at the end of the 2006 reporting year and found no issues. All agencies are communicating with Sandhills on a regular basis to keep reporting current and timely.

Sandhills Community Action Program, Inc.

FINDINGS AND RECOMMENDATIONS

1. INTERNAL CONTROL POLICIES AND PROCEDURES ARE NOT APPLIED CONSISTENTLY.

As part of the grant examination, we reviewed Sandhills' internal policies and procedures and tested compliance to those procedures by examining a sample of expenditures charged to grants awarded through the DHHS Office of Economic Opportunity. We noted numerous instances where Sandhills did not follow its established policies and procedures related to travel reimbursements paid to employees and contract workers, as well as reimbursements for supplies purchased by employees and contract workers. Both employees and contract workers are required to submit documentation including receipts for travel expenses and for purchase of supplies. However, the expenditures listed below in Table 1 did not have the required supporting documentation. Without proper receipts, actual invoices, or the purpose of the expenditure noted, the expense is not verifiable and should not be charged to grants which require supporting documentation.

Transaction Date	Payee / Transaction	Grant Program	Amount	Reason Questioned
1/26/2007	Charlotte Brown	CSBG	161.98	Mileage; no detail for purpose
1/31/2007	Charlotte Brown	CSBG	100.57	No hotel receipts
3/23/2007	Barbara Nelson	CSBG	58.28	Mileage charge of \$105 vs. 105 miles
3/31/2007	Allocated travel expense	CSBG	714.69	No invoice or receipt for expenses
4/20/2007	Charlotte Brown	CSBG	137.74	Mileage; no detail for purpose
Subtotal – CSBG Questioned Reimbursements			\$1,173.26	
7/18/2006	Robert Whitaker	WX/HARRP	361.49	No hotel receipts
7/28/2006	Robert Whitaker	WX/HARRP	315.30	Unacceptable documentation for charges to the grant
10/24/2006	Robert Whitaker	WX/HARRP	450.00	Unacceptable documentation for charges to the grant
10/27/2006	Karen Thomas	WX/HARRP	125.00	Unacceptable documentation for charges to the grant
Subtotal – WX/HARRP Questioned Reimbursements			\$1,251.79	
GRAND TOTAL QUESTIONED REIMBURSEMENTS			\$2,425.05	

***Auditor's Note:* Table 1 was modified based on additional supporting documentation provided by the grantee in response to our draft report.**

Sandhills Community Action Program, Inc.

FINDINGS AND RECOMMENDATIONS

Recommendation:

The Office of Economic Opportunity should request the repayment of \$2,425.05 in unsupported transactions charged to grants as follows: Community Service Block Grant - \$1,173.26; and Weatherization Grant - \$1,251.79; Further, the Office of Economic Opportunity should consider conducting additional review of expenditures as these amounts reflect only a sample of transactions for the period examined.

Sandhills' Board of Directors should direct the Executive Director to adhere to internal control policies and procedures pertaining to reimbursements to employees, contract workers and/or service vendors. The Executive Director should ensure that the finance office does not reimburse employees or contractors for any expenditures charged to grants without the proper documentation. Proper documentation would include receipts, invoices, and the purpose such as the client served.

2. SANDHILLS CHARGED UNALLOWABLE GAS EXPENDITURES TO STATE GRANTS.

The CSBG contracts for fiscal years 2006 and 2007 did not include a provision for gas expenditures for vehicles. However, as shown in Table 2, page 6, Sandhills charged the CSBG program \$10,104.63 in FY 2006 and \$7,821.25 in FY 2007 for gas expenditures. The Financial Status Reports sent to the Office of Economic Opportunity for contract reimbursement on this grant required the grantee to report only "Direct Cost." Since the CSBG grant contract specifically stated that the funds were to provide "staffing to assist low income families to find housing and support services," expenditures for gas should not have been approved.

The Weatherization/HARRP contract provisions for FY 2006 did not allow for any gas expenditures for vehicles, and the FY 2007 grant contract allowed a maximum gas provision of \$5,400. As shown in Table 3, pages 7 and 8, Sandhills charged grant funds \$7,568.63 in FY 2006 and \$7,005.77 in FY 2007 for gas expenditures. These charges were included under "Program Operations" in Financial Status Reports submitted to the Office of Economic Opportunity for contract payment. Additionally, we noted that gas charges lacked adequate supporting documentation including:

- Gas receipts did not always indicate a vehicle identification such as license tag;
- No vehicle logs maintained to identify the purpose of travel;
- Gas purchases were made by employees when timesheets indicated they were on vacation or sick leave, on paid holiday or on weekend days.

Sandhills Community Action Program, Inc.

FINDINGS AND RECOMMENDATIONS

Table 2 Sandhills Community Action Program, Inc. Unallowable Gas Charges to CSBG Grant					
⁽¹⁾ LEGEND: NPK (NIK PIK KWIK); EBT (ELLERBE BAIT & TACKLE); TBP (Troy PM)					
Invoice Date	Charge Type ⁽¹⁾	Amount	Invoice Date	Charge Type	Amount
FY 2006 Charges			05/19/06	NPK	207.79
08/03/05	NPK	\$ 190.28	05/31/06	TBP	63.98
08/10/05	NPK	167.66	05/31/06	Allocation	251.10
08/10/05	NPK	278.37	06/20/06	EBT	214.27
08/10/05	EBT	82.03	06/20/06	NPK	518.62
08/10/05	TBP	34.78	06/30/06	Allocation	46.48
09/09/05	NPK	461.96	Subtotal FY 2006		\$10,104.63
09/09/05	EBT	227.87	FY 2007 Charges		
09/09/05	Jack's	70.00	07/11/06	TBP	\$ 215.49
09/09/05	TBP	252.00	07/18/06	NPK	380.07
09/28/05	Jack's	90.00	07/31/06	TBP	206.12
09/30/05	Jack's	34.00	08/09/06	EBT	232.03
10/05/05	NPK	367.00	08/15/06	NPK	391.23
10/05/05	NPK	257.53	09/20/06	TBP	140.10
10/14/05	TBP	46.00	09/20/06	EBT	171.00
10/14/05	EBT	41.00	09/26/06	NPK	393.49
10/25/05	Allocation	150.02	10/10/06	TBP	216.02
10/25/05	Allocation	71.02	10/10/06	EBT	161.24
11/07/05	TBP	43.00	10/24/06	NPK	230.80
11/15/05	EBT	115.25	11/21/06	EBT	206.69
11/15/05	NPK	481.75	11/27/06	EBT	101.00
11/30/05	Allocation	346.97	12/19/06	TBP	30.22
12/13/05	NPK	375.78	12/19/06	EBT	148.70
12/13/05	EBT	127.87	12/29/06	NPK	175.72
12/19/05	TBP	244.12	01/16/07	TBP	163.31
12/30/05	Allocation	58.70	01/16/07	EBT	226.65
01/13/06	NPK	534.43	01/16/07	Nezzie Smith	41.70
01/13/06	TBP	74.70	01/16/07	Nezzie Smith	57.02
01/13/06	EBT	32.77	01/16/07	NPK	157.12
01/13/06	NPK	105.56	02/08/07	EBT	18.00
01/13/06	TBP	211.00	02/08/07	TBP	35.21
02/20/06	TBP	209.22	02/16/07	NPK	21.00
02/20/06	NPK	312.93	03/19/07	TBP	45.00
02/20/06	EBT	158.67	03/19/07	EBT	256.40
02/20/06	TBP	190.75	03/26/07	NPK	228.39
2/20/06	NPK	122.29	03/26/07	EBT	103.87
03/09/06	TBP	75.74	04/12/07	EBT	114.03
03/09/06	NPK	308.75	04/12/07	TBP	275.83
03/09/06	EBT	262.69	05/04/07	NPK	405.45
03/09/06	TBP	127.50	05/11/07	EBT	328.11
03/09/06	NPK	115.45	05/11/07	TBP	38.00
03/31/06	TBP	283.14	06/01/07	NPK	407.20
03/31/06	EBT	92.14	06/20/07	EBT	208.56
03/31/06	NPK	301.03	06/20/07	TBP	55.66
04/28/06	Allocation	250.79	06/28/07	NPK	463.74
05/12/06	EBT	202.70	06/30/07	Allocation	771.08
05/12/06	TBP	214.98	Subtotal FY 2007		\$7,821.25
GRAND TOTAL- UNALLOWABLE GAS EXPENDITURES					\$17,925.68

Sandhills Community Action Program, Inc.

FINDINGS AND RECOMMENDATIONS

Table 3 Sandhills Community Action Program, Inc. Questioned Gas Charges to Weatherization/HARRP Grants			
⁽¹⁾ LEGEND: LM (DIRECT CHARGE FROM LEONARD MAYHUE); NPK (NIK PIK KWIK-NPK); EBT (ELLERBE BAIT & TACKLE); TBP (Troy PM); BB&T (Bank Card)			
Date	Charge Type ⁽¹⁾	Amount	Reason Questioned
FY2006 Charges			
07/11/05	LM	\$ 5.00	Lacked documentation
08/03/05	NPK	84.93	Lacked documentation
08/10/05	NPK	323.72	Lacked Documentation, included in the gas invoice is a receipt for \$56.70 gas charges by Robert Whitaker, on weekend day.
08/10/05	EBT	470.94	Lacked documentation
08/10/05	NPK	236.01	Lacked documentation
09/09/05	NPK	252.48	Lacked documentation
09/09/05	EBT	495.04	Lacked documentation
10/05/05	NPK	285.62	Lacked documentation
10/14/05	TBP	101.70	Lacked documentation
10/14/05	EBT	287.57	Lacked Documentation, included in the gas invoice are receipts for \$37.88 and \$45.52 gas charges by Robert Whitaker, while on sick leave and on vacation.
11/15/05	EBT	383.24	Lacked documentation
11/15/05	NPK	434.81	Lacked documentation
12/13/05	NPK	248.45	Lacked Documentation, included in the gas invoice are receipts for \$57.35 and \$61.50 gas charge by Robert Whitaker, while on vacation and a weekend day.
12/13/05	EBT	317.33	Lacked Documentation, included in the gas invoice are receipts for \$21.78 and \$29.15 gas charges by Leonard Mayhue, while on vacation.
01/13/06	NPK	130.87	Lacked documentation
01/13/06	TBP	32.50	Lacked documentation
01/13/06	EBT	287.54	Lacked documentation
02/20/06	NPK	386.47	Lacked documentation
02/20/06	EBT	268.39	Lacked Documentation, included in the gas invoice are receipts for \$30.02 and \$30.00 gas charges by Leonard Mayhue, while on vacation.
03/09/06	NPK	129.71	Lacked documentation
03/09/06	EBT	475.50	Lacked documentation
03/31/06	TBP	45.89	Lacked documentation
03/31/06	EBT	444.10	Lacked documentation
03/31/06	NPK	198.71	Lacked documentation
04/19/06	LM	8.63	Lacked documentation
05/12/06	EBT	266.56	Lacked Documentation, included in the gas invoice are receipts for \$50.00 and \$30.00 gas charges by Leonard Mayhue, on a weekend day.
05/12/06	TBP	81.94	Lacked documentation
05/19/06	NPK	377.85	Lacked documentation
05/19/06	LM	18.00	Lacked documentation
05/31/06	TBP	43.24	Lacked documentation
06/20/06	EBT	243.81	Lacked Documentation, included in the gas invoice are receipts for \$43.00 and \$50.00 gas charge by Leonard Mayhue, not working on a weekend day and on vacation.
06/20/06	NPK	202.08	Lacked documentation
Subtotal FY 2006		\$7,568.63	

Sandhills Community Action Program, Inc.

FINDINGS AND RECOMMENDATIONS

Table 3 (continued)			
Sandhills Community Action Program, Inc.			
Questioned Gas Charges to Weatherization/HARRP Grants			
⁽¹⁾ LEGEND: LM (DIRECT CHARGE FROM LEONARD MAYHUE); NPK (NIK PIK KWIK-NPK); EBT (ELLERBE BAIT & TACKLE); TBP (Troy PM); BB&T (Bank Card)			
Date	Charge Type ⁽¹⁾	Amount	Reason Questioned
FY2007 Charges			
07/11/06	TBP	90.00	Lacked documentation
07/18/06	NPK	222.76	Lacked documentation
08/09/06	EBT	408.02	Lacked Documentation, also included in the gas invoice are receipts for \$34.17 and \$48.00 gas charges by Leonard Mayhue, while out on sick leave.
08/15/06	NPK	380.40	Lacked documentation
09/20/06	EBT	475.21	Lacked documentation
09/26/06	NPK	391.61	Lacked documentation
10/10/06	EBT	340.26	Lacked Documentation, included in the gas invoice are receipts for \$28.17 and \$35.02 gas charges by Leonard Mayhue, while on sick leave.
10/24/06	NPK	343.18	Lacked documentation
11/7/06	TBP	99.46	Lacked documentation
11/21/06	EBT	171.99	Lacked documentation
11/27/06	EBT	434.76	Lacked documentation
12/19/06	EBT	353.19	Lacked documentation
12/29/06	NPK	155.36	Lacked documentation
01/16/07	TBP	42.00	Lacked documentation
01/16/07	EBT	272.10	Lacked Documentation, included in the gas invoice is a receipt for \$26.80 gas charges by Leonard Mayhue, on a weekend day.
01/16/07	NPK	256.54	Lacked documentation
02/08/07	EBT	256.59	Lacked documentation
02/08/07	TBP	194.50	Lacked documentation
03/19/07	LM	8.00	Lacked documentation
03/19/07	TBP	76.50	Lacked documentation
03/19/07	EBT	90.37	Lacked documentation
03/26/07	NPK	257.63	Lacked documentation
03/26/07	EBT	263.40	Lacked documentation
04/12/07	EBT	373.53	Lacked Documentation, included in the gas invoice is receipt for \$36.66 gas charge by Leonard Mayhue, on a weekend day.
05/04/07	NPK	154.36	Lacked documentation
05/04/07	BB&T	252.99	Missing invoices charges made on bank card.
05/11/07	EBT	502.09	Lacked Documentation, included in the gas invoice is receipt for \$83.80 gas charge by Robert Whitaker, on a weekend day.
06/01/07	NPK	138.97	Missing invoices, lack of documentation
06/20/07	EBT	476.98	Missing invoices
06/28/07	NPK	294.10	Missing invoices
06/30/07	Allocation	(771.08)	Allocation from Weatherization to the CSBG program to CSBG
Subtotal FY2007		\$7,005.77	
GRAND TOTAL – QUESTIONED GAS EXPENDITURES		\$14,574.40	

The questioned costs in Tables 2 and 3 appear to have “slipped through the cracks” as a result of a reporting format that does not require the necessary level of detail to allow the funding agency to determine that funds were expended in compliance with the terms of the grant contract.

Sandhills Community Action Program, Inc.

FINDINGS AND RECOMMENDATIONS

Recommendation:

The Office of Economic Opportunity should initiate action to recoup all unallowable gas expenditures charged to the CSBG and Weatherization/HARRP grants as identified in Tables 2 and 3. Additionally, DHHS management should review the format for grant reimbursement request forms to ensure that the level of detail required allows determination of compliance with grant terms.

Sandhills' Board of Directors should strengthen internal controls to insure that unallowable expenses are not charged to state funded programs. The internal controls should ensure that allowable gas expenditures are properly documented to include vehicle identification and purpose and should prevent employees or contractors from charging gas when not on official duty.

3. SANDHILLS CHARGED UNALLOWABLE INDIRECT EXPENDITURES TO THE COMMUNITY SERVICE BLOCK GRANT.

The CSBG grant contracts for fiscal years 2006 and 2007 did not include indirect costs as an allowable expenditure to the grants. However, examination of Sandhills' financial documentation for the years in review shows that the Revenues and Expenditure Report by Project includes indirect costs of \$34,808 in FY 2006 and \$29,260.23 in FY 2007. These charges to the CSBG grant were included in the Direct Cost reported to the Office of Economic Opportunity. As with the unallowable gas charges discussed above, the Financial Status Reports sent to the Office of Economic Opportunity for contract reimbursement contained only one line item identified as Direct Cost. (See discussion in finding #2 relative to the need for a more detailed cost reimbursement form.)

Recommendation:

The Office of Economic Opportunity should initiate action to recoup all unallowable indirect costs charged to the CSBG grant. Sandhills' Board of Directors should implement internal controls to ensure that unallowable expenses are not charged to state funded grants.

4. SANDHILLS' BOARD OF DIRECTORS FAILED TO PROVIDE CONSISTENT OVERSIGHT OF OPERATIONS.

We saw no evidence of board reviews of financial statements or reviews of disbursements or other activity designed to ensure internal policies were

Sandhills Community Action Program, Inc.

FINDINGS AND RECOMMENDATIONS


followed. After we began our on-site review, the Board did meet and become aware of management's failure to follow internal control policies and procedures.

Recommendation:

The Board should take steps to provide active oversight to ensure adequate internal controls are in place related to operations. This oversight should specifically include, among other things, monthly review of financial statements and review of disbursements.

Sandhills Community Action Program, Inc.

GRANTEE'S RESPONSE



For The Hearing Impaired NC Relay System 1-800-735-8262

Sandhills Community Action Program, Inc.

POST OFFICE BOX 937
 103 SAUNDERS STREET
 AN EQUAL OPPORTUNITY PROGRAM

CARTHAGE, NORTH CAROLINA 28327-0937

PHONE 947-5675—AREA CODE 910

FAX NO.: (910) 947-5514
 E-MAIL: nezziesmith@nc.rr.com

May 27, 2008

Mr. Leslie W. Merritt, Jr., CPA, CFP
 State Auditor
 OFFICE OF THE STATE AUDITOR
 20601 Mail Service Center
 Raleigh, NC 27699-0601

Dear Mr. Merritt:

In response to findings and recommendations resulting from an examination of Sandhills Community Action Program, Inc.'s management of State grant funds, we offer the following:

1. *Internal Control Policies and Procedures are not applied consistently.*

Please find enclosed documentation relating to the following expenditures:

Table 1
Sandhills Community Action
Questioned Cost – Documentation/Support Available

Transaction Date	Payee/Transaction	Grant Program	Amount	Documentation/Support available for review
9/20/06	Harris Brown Mgmt	ESG	\$280.00	Letter from Harris Brown Management & Copy of Cancelled Check
12/29/06	Barbara Robinson	ESG	300.00	Letter from Barbara Robinson & Copy of Cancelled Check
7/18/06	Robert Whitaker	Wx/HARRP	361.49 (509.35)	Hotel Receipt
11/7/06	Karen Thomas	WX/HARRP	377.69 (719.69)	Hotel Receipt

The response from the grantee has been reformatted to conform with the style and format of the rest of the report. However, no data has been changed.

Sandhills Community Action Program, Inc.

GRANTEE'S RESPONSE

Response to State Auditors Findings & Recommendations

Sandhills Community Action Program, Inc. has served the low-income population for more than 30 years. Our internal controls procedure has always been strong. Financial duties were delegated to the appropriate staff persons and we were under the impression that the duties were being carried out in accordance with our procedures.

During the time that files were not documented properly, our Finance Manager experienced several personal issues, which apparently contributed to relaxed internal controls. Much of the noted documentation was filed incorrectly or not filed in a timely manner. The Finance Manager has since resigned and a new Finance Manager was recently hired.

2. Sandhills charged unallowable gas expenditures to state grants.

Gas expenditures directly related to the provision of services to our client base is a necessary part of assisting low-income families to secure housing and necessary supportive services. Vehicles were assigned to specific employees for travel related to their caseloads and related expenses were charged accordingly. Receipts are available for review for all gas expenditures noted in Table 3.

In regard to gas charges incurred on weekend days and/or when the employee was on sick or vacation leave, these individuals have been reprimanded and have been required to reimburse the charges incurred.

3. Sandhills Charged unallowable indirect expenditures to the Community Services Block Grant.

Although indirect costs were not budgeted in FY 2006 & 2007 for the CSBG and Weatherization/HARRP Programs, in error, indirect costs in relation to the administration of grant funds is a necessary expense and an allowable budget item. All indirect costs incurred were assignable to the specific program and solely to advance our work under the contract agreements. Each of the sponsored agreements benefited from project administration and overall operations of the program.

4. Sandhills' Board of Directors failed to provide consistent oversight of operations.

The Board of Directors will strengthen internal controls to ensure that Sandhills adheres to its written policy. We have instituted an internal auditing procedure to ensure that our internal controls are being followed precisely. We have also began a training process for all employees on the importance of proper documentation.

June 6, 2008
Mr. William Ward
Ms. Nezzie Smity
Page 13 of 13

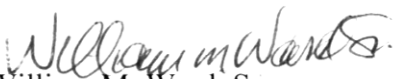
Sandhills Community Action Program, Inc.

GRANTEE'S RESPONSE

Response to State Auditors Findings & Recommendations

While we do appreciate your office bringing the results of your investigation to our attention, we respectfully disagree with your recommendation that Sandhills Community Action Program, Inc. reimburse the Office of Economic Opportunity for expenses that were directly related to program administration and the provision of services to low-income households.

Sincerely,


William M. Ward, Sr.
Board Chairman


Nezzie M. Smith
Executive Director

WMW/NMS/nw