

Nonprofit Audit: Penelope House

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Introduction

Penelope House, founded in 1979 and located in Mobile, Alabama, serves as one of the region's cornerstone nonprofit organizations addressing domestic violence and its effects on women, children, and families. Operating within the human services sector, the organization provides emergency shelter, counseling, advocacy, and prevention education to victims of intimate partner violence. As a nonprofit entity, Penelope House functions under a governance framework designed to uphold accountability, transparency, and mission-driven performance. Its operations are guided by an Executive Director and a volunteer Board of Directors, as outlined in the organization's board bylaws (Penelope House, 2008).

The purpose of this governance audit is to evaluate Penelope House's alignment with best practices established by *The Principles Workbook: Steering Your Board Toward Good Governance and Ethical Practice* (Independent Sector, 2015). Using this framework, the audit assesses eight selected governance principles: Code of Ethics, "Whistleblower" Policy, Board Meetings, Board Size and Structure, Annual Budget, Resource Allocation for Programs and Administration, Accuracy and Truthfulness of Fundraising Materials, and Oversight of Fundraisers which align with the workbook's four categories. Through this evaluation, the audit identifies existing strengths and areas for improvement, referencing the organization's bylaws, operational practices, and nonprofit governance standards. Finally, it offers two draft policies, a Code of Ethics and "Whistleblower" Policy, to strengthen Penelope House's legal compliance and ethical framework.

Code of Ethics

Status of the Organization

A strong Code of Ethics serves as the foundation for responsible nonprofit governance and public trust. *The Principles Workbook* emphasizes that a Code of Ethics ensures “the board, staff, and volunteers act in accordance with fundamental values of honesty, integrity, fairness, and respect” (Independent Sector, p. 7, 2015). Although Penelope House operates with integrity and professionalism, it lacks a formally written Code of Ethics that applies uniformly to all levels of the organization. Ethical standards are reflected implicitly in the bylaws, such as in Article II, Section 2.09, which outlines expectations for board member conduct and participation (Penelope House, 2008). However, there are no explicit policies detailing conflict of interest procedures, confidentiality protections, or behavioral guidelines. This absence leaves the organization partially out of alignment with established governance best practices.

Next Steps to Gain Compliance

To achieve compliance with the *Principles Workbook* and strengthen its ethical governance, Penelope House should adopt a comprehensive written Code of Ethics. The policy should clearly articulate the organization’s core values, define acceptable behavior, and outline procedures for managing conflicts of interest and confidentiality. Incorporating an acknowledgment form signed by all employees, volunteers, and board members would institutionalize accountability and reinforce the ethical culture. Publishing the Code of Ethics on the organization’s website and reviewing it annually would further demonstrate transparency and organizational maturity (Independent Sector, 2015).

Responsible Parties

According to the bylaws, the Board of Directors has the authority to approve and amend organizational policies (Penelope House, 2008, Article II, § 2.10). Therefore, the Executive Director and the Board Governance Committee should collaborate to draft, implement, and oversee the Code of Ethics. Their joint responsibility ensures that the policy is comprehensive, legally compliant, and consistently enforced throughout the organization. While that is the case, we have also provided a draft in Appendix A.

“Whistleblower” Policy

Status of the Organization

A formal “Whistleblower” Policy is an essential mechanism for accountability and legal compliance within nonprofit organizations. *The Principles Workbook* states that such a policy protects individuals who report misconduct “without fear of retaliation and with confidence that their concerns will be fairly addressed” (Independent Sector, p. 9, 2015). Currently, Penelope House has no written “Whistleblower” Policy. Although the organization demonstrates a culture of ethical accountability, the lack of a documented procedure for reporting misconduct presents a governance gap. The 2008 bylaws empower the board to oversee financial and operational integrity but do not include guidelines for confidential reporting or whistleblower protections (Penelope House, 2008, Article II, § 2.10). As a result, staff and volunteers may be uncertain about how to report potential violations, leaving the organization exposed to compliance risks.

Next Steps to Gain Compliance

To meet best practice standards and ensure compliance with the Sarbanes-Oxley Act of 2002, Penelope House should adopt a formal “Whistleblower” Policy that defines reportable activities, establishes multiple reporting channels, and prohibits retaliation against individuals acting in good faith. The policy should designate both the Executive Director and the Board Chair (or Vice

President for Governance) as reporting contacts to ensure impartiality and oversight. Training should be incorporated into staff and volunteer orientation to promote awareness of whistleblower protections. Regular reviews of policy implementation should also be conducted by the board to maintain accountability and trust (Independent Sector, 2015).

Responsible Parties

Oversight of this policy should rest with the Executive Director and the Executive Committee of the Board of Directors, as authorized in Article III, Section 3.02 of the bylaws (Penelope House, 2008). Their responsibility includes maintaining confidential reporting procedures, ensuring compliance with whistleblower protection laws, and documenting all reports and resolutions for annual review. Because it is essential for Penelope House to have this document, we have provided a draft in Appendix B.

Board Meetings

Status of the Organization

Regular, well-organized board meetings are central to effective nonprofit governance. *The Principles Workbook* emphasizes that a nonprofit's success "depends on boards meeting often enough to stay informed and engaged, while using meeting time strategically to focus on mission, policy, and oversight" (Independent Sector, p. 15, 2015). Penelope House demonstrates strong compliance with these standards through its bylaws, which mandate at least five regular meetings per year and one annual meeting each March (Penelope House, 2008, Article II, §§ 2.06–2.10). Special meetings may be called with appropriate notice, and a majority of members constitutes a quorum, ensuring proper representation. The Secretary is responsible for recording minutes, and the Executive Committee assists with agenda planning and policy review.

These practices reflect a governance framework that supports transparency, participation, and accountability. However, Penelope House could strengthen its alignment with best practices by increasing strategic focus during meetings and enhancing transparency in its recordkeeping. Currently, meeting documentation is internally maintained, but the organization could benefit from developing systems to evaluate board performance and improve the efficiency and accessibility of its meetings.

Next Steps to Gain Compliance

To enhance compliance with the *Principles Workbook*, Penelope House should adopt a formal meeting evaluation process to assess how effectively meetings advance the organization's mission and governance goals. The board might also implement an annual calendar that schedules meetings in advance, providing members ample time to prepare. Additionally, digitizing meeting minutes and storing them securely would improve organizational continuity and transparency. Making non-confidential annual summaries accessible to stakeholders would also further demonstrate Penelope House's commitment to open governance.

Responsible Parties

The Executive Director and Board Secretary should lead improvements in documentation and transparency, with oversight from the Governance Committee. This committee, identified in the bylaws as responsible for reviewing board policies and performance (Penelope House, Article III, § 3.02, 2008), should coordinate evaluations and ensure that meeting structures remain aligned with the organization's mission and the expectations outlined in *The Principles Workbook* (Independent Sector, 2015).

Board Size and Structure

Status of the Organization

A well-balanced board size and structure are essential to ensuring strong leadership, diverse perspectives, and efficient decision-making within a nonprofit organization. *The Principles Workbook* stresses that a board should be “large enough to include a range of perspectives and skills, but small enough to remain efficient and focused on governance” (Independent Sector, p. 18, 2015). Penelope House’s bylaws set a board size of not fewer than twelve and not more than twenty members, a range that allows for both diversity and manageability (Penelope House, Article II, § 2.02, 2008). Officers include a President, Vice Presidents, Secretary, and Treasurer, each with defined duties outlined in Article IV. The bylaws also require members to serve on at least one committee, ensuring engagement and shared responsibility across governance functions.

While this structure aligns well with nonprofit governance principles, there are opportunities for further development. The bylaws do not explicitly address board diversity, member evaluation, or recruitment strategies. These omissions limit the organization’s ability to ensure representation that reflects the demographics and experiences of the community it serves. Additionally, the absence of a formal orientation process may hinder new members’ understanding of their responsibilities and the organization’s mission.

Next Steps to Gain Compliance

To meet best practice standards, Penelope House should expand its governance framework to include formal policies on board recruitment, orientation, and self-evaluation. Establishing diversity goals that reflect the populations served by the organization would strengthen decision-making and credibility. A structured orientation program would ensure that new board members are fully informed about ethical standards, fiduciary duties, and the organization’s mission. The board could also implement an annual self-assessment to evaluate collective

performance and identify skill gaps. These practices align with *The Principles Workbook's* recommendation that boards regularly assess their effectiveness and composition to ensure strong leadership continuity (Independent Sector, p. 19, 2015).

Responsible Parties

The Governance Committee and Nominating Committee should oversee improvements to board size and structure. These committees, as authorized by the bylaws (Penelope House, Article III, § 3.02, 2008), are best positioned to manage recruitment, orientation, and evaluation initiatives. Working with the Executive Director, they can ensure that board composition remains diverse, effective, and reflective of Penelope House's values and strategic priorities.

Annual Budget, Financial Performance, and Investments

Status of the Organization

Financial accountability and responsibility are key elements of effective governance. As explained in *The Principle Workbook*, the board of a nonprofit organization bears the "fiduciary responsibility of the organization," and the entire board should be involved in the budget-making process, from conception to implementation (Independent Sector, p. 43, 2015). While the Board Bylaws for Penelope House do not explicitly detail how the organization prepares its annual budget, Penelope House's Executive Director shared with us that the budget is discussed when the board convenes every January. In this meeting, board members reflect on the previous year's budget, evaluating, for example, areas of growth, changes in expenses and revenue, and potential challenges moving forward. From these discussions, the board then drafts the annual budget for the upcoming year and takes a vote. As for overall financial performance of the organization, Penelope House's expenses, revenue, and funds raised can all be accessed via the organization's Form 990.

Next Steps to Gain Compliance

As previously mentioned, Penelope House does not have written policies for the annual budget planning process. Even though the board currently holds to the practices that have been in place for decades, there is no way to ensure that members will maintain accountability and hold to these practices in the future. For this reason, the Penelope House board should add a section to their bylaws that would formalize their process of budget evaluation, creation, and oversight. Additionally, board members should be required to review financial documents throughout the year to not only ensure that the budget is being implemented properly by staff, but to also guarantee that board members can decipher and understand the organization's financial records themselves.

Responsible Parties

In compliance with best practices, every Penelope House board member is expected to play an active role in the creation and implementation of the organization's annual budget. Additionally, all board members should be involved in the review of financial documents throughout the year, but currently, the board Treasurer is the only position with formalized financial responsibilities (Penelope House, Article VI, § 6.07, 2008).

Resource Allocation for Programs and Administration

Status of the Organization

Proper resource allocation should be at the forefront of responsibly handling an organization's finances. Because programs are the most direct way in which Penelope House serves its community and gives action to its mission, program costs should account for the majority of the organization's annual expenses. According to Penelope House's Form 990 for 2023, roughly 83% of the organization's expenses were from program costs; however,

fundraising expenses only accounted for approximately 2% of Penelope House's expenses in 2023 (Candid., 2025). The rest of the organization's expenses were attributed to management and other miscellaneous expenses, which includes employee salaries.

Next Steps to Gain Compliance

Given the wide range and scale of programming that Penelope House provides, it makes sense for such a large portion of the organization's expenses to be attributed to programs. However, it is key that the board reviews organizational spending throughout the year to ensure that the resources being allocated towards programming as opposed to fundraising, for example, are adequate and being utilized responsibly. To increase the likelihood of this occurring and becoming standard practice, the Penelope House board should include this responsibility to provide continual oversight in the bylaws, as it is not explicitly stated in the board's bylaws currently (Penelope House, 2008).

Responsible Parties

Under the Penelope House board bylaws, the only individual with formalized allocation abilities is the Executive Director. As mentioned in Article 6, Section 6.09, the Executive Director has the right "to fix the compensation of employees and agents within the boundary of the personnel portion of the budget as passed by the Board of Directors, except that the Executive Director shall not set his/her own compensation" (Penelope House, Article VI, § 6.09, 2008). Other than this section and the section detailing the responsibilities of the Treasurer, there are no other formal bylaws specifying individuals who oversee resource allocation. This is likely because the responsibility of budget implementation and oversight is a shared responsibility of all board members.

Accuracy and Truthfulness of Fundraising Materials

Status of the Organization

Transparency is fundamental in maintaining relationships with both fundraisers and the public at large. By being open about how donations and other forms of support are utilized, donors are allowed to see the potentially tangible ways in which their contributions make a difference. Given the sensitive nature of some of Penelope House's programs, it is key that the organization continues to strike a balance between communicating the urgency of its mission while still protecting the interests of program beneficiaries. That being said, it is key that donors are well-informed regarding how funds raised are allocated.

Next Steps to Gain Compliance

Even though all fundraising materials shared with us were accurate and explained Penelope House programs in great detail, there is minimal provision in the board bylaws for proper engagement with donors. As mentioned in *The Principle Workbook*, many organizations have opted to develop a "Donor Bill of Rights" to increase accountability and ensure that there is an appropriate, open line of communication between Penelope House donors and board members (Independent Sector, p. 51, 2015). This step would be highly recommended as it not only protects donor interests, but it also would provide board members who are not as well-versed in fundraising how to properly engage with and even recruit new donors.

Responsible Parties

According to the Penelope House board bylaws, the board Treasurer is explicitly responsible for the handling of any financial documentation, including all "matters relating to taxation" (Penelope House, Article VI, § 6.07, 2008). This would include providing receipts and other forms of documentation to Penelope House donors. Even though it is not explicitly detailed

in the board bylaws, all board members are expected to participate in fundraising activities, with the board's Fundraising Committee providing key oversight.

Oversight of Fundraisers

Status of the Organization

As mentioned in the previous section, while there is minimal mention of the oversight of fundraisers and fundraising activities in the Penelope House board bylaws, the board holds to various good-faith practices that they have had for many years. This includes the expectation for all board members to recruit new donors and maintain preexisting donor relationships. However, this lack of standardized materials for how board members are to engage with donors can create room for various issues such as those detailed in *The Principles Workbook*: noncompliance with legal precedents for fundraising, improper representation of the organization and/or its mission, and harassment, whether intentional or unintentional (Independent Sector, 2015).

Next Steps to Gain Compliance

There are multiple ways in which the Penelope House board can increase accountability and oversight in fundraising activities. The first is the implementation of a curriculum that educates board members on proper fundraising practices. For example, in the onboarding process, all new board members should be required to participate in donor-engagement training that explains how to present the mission, vision, and values of Penelope House in a way that appeals to donors without making them feel uncomfortable or pressured. Additionally, all board members should be required to periodically review local, state, and federal laws pertaining to the solicitation of funds. Lastly, the practices listed must be written into the board bylaws.

Responsible Parties

The pursuit of new fundraisers, engagement with current fundraisers, and review of board engagement in fundraising is overseen by the board's Fundraising Committee. The role of the Fundraising Committee is purely supervisory; it is the responsibility of all board members to actively participate in fundraising activities and collaborate with each other and with the organization's donors.

Conclusion

Overall, this governance audit for Penelope House demonstrates the strong commitment to its mission and carries out its work with integrity, compassion, and community impact. The organization's bylaws provide a solid structural foundation. Many of their practices align with the expectations outlined in *The Principles Workbook* as well. However, the assessment also reveals ways to strengthen legal compliance, ethical clarity, and governance consistency through formalized policies and improved documentation. Implementing a written code of ethics and a whistleblower policy will, in the long run, solidify the organization's ethical framework and enhance accountability across leadership in the organization. Strengthening board operations, clarifying financial oversight, and standardizing fundraising practices will further transparency, public trust, and long-term resilience. By adopting these recommendations, Penelope House will be better positioned to sustain its mission, protect its stakeholders, and continue providing support to survivors of domestic violence in the Mobile community.

References

Candid. (2025, February 11). *Penelope House, Inc. Form 990*. Candid.

<https://app.candid.org/profile/8005457/penelope-house-inc-63-0763198?activeTab=7>

Independent Sector. (2015). *The Principles Workbook: Steering your board toward good governance and ethical practice*. Independent Sector: Board Source.

Penelope House, Inc. (2008). *Bylaws of Penelope House, Incorporated*. Mobile, AL.

Penelope House, Inc. (2024). *2024 Annual Report*. <https://penelopehouse.org/annual-report>

Sarbanes-Oxley Act of 2002, 18 U.S.C. § 1514A.

Appendix A - Draft Code of Ethics

Purpose:

The Code of Ethics establishes clear standards of integrity, accountability, and professionalism for all individuals associated with Penelope House. As a nonprofit dedicated to supporting victims of domestic violence and their children, Penelope House is committed to maintaining the highest ethical standards in all operations, programs, and relationships with clients, staff, volunteers, donors, and the community.

Scope:

This policy applies to all employees, board members, volunteers, and representatives of Penelope House.

Guiding Principles:

1. Respect and dignity for all individuals.
2. Strict confidentiality of client and donor information.
3. Integrity and honesty in all professional actions.
4. Disclosure and avoidance of conflicts of interest.
5. Proper use of organizational resources.
6. Compliance with all applicable laws.
7. Transparency and ethical reporting of violations.

Enforcement and Acknowledgment:

Violations of this Code may result in disciplinary action. All staff, volunteers, and board members must sign a statement affirming their understanding and adherence to these ethical standards.

Appendix B - Draft Whistleblower Policy

Purpose

Penelope House is committed to lawful and ethical behavior in all of its activities and requires all directors, officers, employees, and volunteers to act in accordance with all applicable laws, regulations, and policies. This Whistleblower Policy is intended to encourage and enable employees and others to raise serious concerns internally so that Penelope House can address and correct inappropriate conduct and actions.

Scope

This policy applies to all Penelope House employees, board members, volunteers, and contractors.

Policy Statement

It is the responsibility of all individuals associated with Penelope House to report concerns about suspected violations of law or organizational policy, including but not limited to:

- Fraud or financial misconduct
- Misuse of funds or property
- Conflicts of interest
- Discrimination or harassment
- Violations of the Code of Ethics
- Retaliation against whistleblowers

Reporting Procedure

1. Concerns should first be reported to the Executive Director, who is responsible for investigating and ensuring proper resolution.

2. If the concern involves the Executive Director or senior leadership, the report should be made directly to the Board Chair or Vice President of Governance.
3. Reports may be submitted in writing, by email, or anonymously through a designated reporting channel.

Investigation and Confidentiality

All reports will be promptly and thoroughly investigated. Confidentiality will be maintained to the extent possible, consistent with the need to conduct an adequate investigation and comply with legal obligations.

No Retaliation

No individual who, in good faith, reports a violation shall suffer harassment, retaliation, or adverse employment consequences. Anyone who retaliates against a whistleblower will be subject to disciplinary action up to and including termination or removal from the board.

Acting in Good Faith

Anyone filing a complaint must act in good faith and have reasonable grounds to believe the information disclosed indicates a violation. Allegations proven to be knowingly false will be considered a serious disciplinary offense.

Accountability and Oversight

The Board of Directors shall oversee compliance with this policy and ensure that any corrective action is implemented appropriately. A record of all whistleblower reports and outcomes shall be maintained for accountability and review.