

TRUSTING THE TREASURER: FAULTY FRATERNITY FAITH

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The newly appointed treasurer of a university fraternity was looking to exercise the business finance skills he was learning in his undergraduate major. He was both excited and serious about this opportunity to manage approximately \$40,000 of funds collected and dispersed annually by his fraternity. It would also be a good addition to his resume. Although his seriousness was sustained, the excitement soon waned. Shortly after taking office, he wrote his first check to an account payable. When the check bounced, he discovered that there was little to no money in the fraternity's account.

INTRODUCTION

Mark was optimistic about doing well in his new duty as fraternity treasurer. In addition to a personal passion for business finance topics, Mark hoped to include the experience on his resume. Although he held a job throughout high school and had work experience, he did not yet have the chance to apply business finance skills in an actual organization. During an interview for a summer position at a local bank, the interviewer told Mark that taking a position like fraternity treasurer would look good on his resume. Although he was offered the job without this experience, he turned it down in order to stay at his fraternity during the summer and take courses important to graduating by the following spring. Only a few weeks later, Mark was asked to assume the role of fraternity treasurer, so his decision proved to be fateful. It afforded him the opportunity to be in the right place at the right time when the unexpected happened.

Early in the summer, Mark received word from the fraternity president that the incumbent treasurer was withdrawing from the university and would not return to campus. The treasurer's home was more than five hours drive time from campus, thus making direct contact difficult. The former treasurer's parents indicated only that he was suffering from a possible mental breakdown and would not be available to help in any fraternity matters, so no other information was available. In short, there would be no smooth transition of duties or adequate transfer of financial records.

Although there was an assistant treasurer, this individual was gone for the summer. He was not being assigned to that position of the Treasurer in the upcoming year, so he had separated himself from the process. In light of the situation and with bills needing to be paid, the fraternity president asked Mark to immediately assume the role of treasurer.

The fraternity house was rented on a 12-month lease, subject to annual renewal. There were enough bedrooms in the house for six brothers to live there, accompanied by ample meeting room space both inside and out for the 35 fraternity brothers and various social events held throughout the year. Although not all fraternity residents stay at school year-round, the rent, utilities, and other related expenses must be paid monthly throughout the year. Non-residing brothers do not pay the house rental fee, but part of their dues pays a parlor fee. Fixed rent payments, utilities, and related expense payments are met each month through residents' rent payments and fraternity dues paid by all members. Mark's first task in June was to write an overdue rent check for \$2,400 to the landlord. Two days later, he got the call from the landlord stating that the check had bounced due to insufficient funds.

PART 1

THE BANK PROBLEM

Mark called the bank to check on the funds balance only to be told that he was not authorized to be given that information. When he asked how to get authorization he was told that either the president or the treasurer had to come to the bank in person to sign forms which would allow Mark to access the fraternity's account. The former treasurer was incapacitated. The president was gone for the summer and unable to return until mid-August. Despite Mark's explanation of the situation, the bank stood firm on its policy.

Although the fraternity had access to its account online, the bank had disabled this feature due to the insufficient funds problem accompanied by the bounced checks. It was a small local bank, so there was no recourse to a higher authority. Further, the bank was currently the target of an FDIC takeover, so the situation was complicated by the fact that the bank managers were reluctant to help, especially while they were being subjected to an official investigation.

THE FORMER TREASURER PROBLEM

As previously discussed, the former treasurer was reported to be incapacitated. The president told Mark that everything should have been left in the hands of the assistant treasurer who was already gone for the summer. Mark contacted the assistant who said that he never intended to assume the responsibility, so no records were transferred and he was never given access to the accounts.

In the absence of information, Mark began investigating in order to gain some understanding of the fraternity's fiscal status. He was quickly able to contact most of the fraternity brothers through cell phones or text messages. When asked about the dues payments they had made, Mark determined that the fraternity should have had sufficient funds in the bank. In some cases, a member was late and had not yet paid summer dues. This tardiness would eventually be the circumstance that saved the fraternity from default.

Although Mark concluded that the former treasurer did not keep an accurate account of summer dues payments, he also wondered about other shortcomings.

Some of the brothers Mark was able to contact claimed to have paid their dues, but that money was unaccounted for and certainly not in the account. Other brothers were confirmed as not yet having paid their summer dues, but were willing to do so. A few were gone on vacation and unreachable in the short term.

Bottom line, the fraternity was short funds. After reaching this conclusion, Mark's first course of action was simply to try to collect funds from whoever owed in order to pay bills that were due and overdue. In the process of his collection efforts, one of the fraternity brothers told Mark that the former treasurer dodged a rent payment by claiming that he was not legally obligated to pay it.

THE HOUSE MANAGER AND THE PROBLEM OF TWO ACCOUNTS

Mark also discovered that the fraternity house manager was designated to manage a separate bank account used to make the payments for rent and house-related expenses, such as utilities. The house manager was a fraternity brother who lived in the house and kept a separate checkbook in order to make these payments. The funds in the house manager's account were supposed to be transferred from the main fraternity bank account and budgeted for house-related expenses. Mark now realized that the problem of the bounced rent check should never have happened. He had not fully understood the fraternity's financial system, so he had simply written the rent check using the wrong check book.

Mark thought that the problem would be easily solved by contacting the house manager. However, the house manager was gone for the summer and did not reply to various attempts to contact him. One of the brothers living in the house during the summer told Mark that the house manager kept the checkbook and account information in a secure closet. Again, Mark thought that the problem would be easily solved by gaining access to the secure closet at the fraternity and using the house manager's checking account to make the payment to the landlord. Since one of the summer house residents was able to access the secure closet, Mark got the appropriate type of check to pay the rent.

After leaving the check for the landlord to pick up, Mark got a call the next day stating that this check also had bounced due to insufficient funds. In addition to the pressure of trying to understand and fix fraternity finances, Mark was now feeling the ire of the landlord because he kept promising the landlord that he had fixed the problem. With another call to the

bank, Mark discovered that this was not the first bounced check from the house manager's account. The house manager had written other checks out of this account when the money was not there to cover them.

THE DECISION DILEMMA

Now Mark really did not know what to do. Even though he knew he was not at fault, he felt like he was in a very difficult position. One of his close friends suggested that he seek advice from either the campus Director of Greek Life or representatives from the national fraternity office. This option presented Mark with a significant dilemma because the fraternity had just received its charter the year before. The Greek Life Office had proven to be very strict regarding its policies for fraternity administration. During Mark's time at the university, some campus fraternities had been placed on probation, while others had their charters revoked. Mark was unsure how the Greek Life Office would respond and was concerned that they would be quick to shut down a fraternity as new as his.

A similar concern arose regarding contact with the national fraternity and its representatives. Because the fraternity was so new, there was no history to determine how the national office would respond. There were also no alumni that Mark knew who could be contacted for advice. The only alumni were very recent graduates who lacked the experience to give the kind of advice needed in this situation.

Finally, Mark felt like he was not sure how advisors could help. He was unable to tell anyone the status of their accounts, where the money was, or even if there was any money. They could not solve the problem or pay the fraternity's bills. His personal reputation was at stake with the landlord, the fraternity clearly had a financial problem, and this newly chartered organization could be in jeopardy. So, what should he do next?

PART 2

THE MISALLOCATION OF FUNDS PROBLEM

Although Mark was unable to piece together this puzzle with any physical documentation of financial transactions, a suspect and tawdry picture emerged as he spoke more with his fraternity brothers. The fraternity at-large was responsible for all payments relating to utilities and other similar expenses for the rented fraternity house. The house manager was actually responsible to collect rent payments and pay the landlord. Since Mark had resided at the house the year before, he knew that both the first and last month's rent payments were collected from each resident in advance at the start of the school year in August. This process was instituted in order to ensure that the funds would be available to pay the rent during the following summer.

After speaking with the resident brothers about rent payments that they personally made during the prior year, Mark realized that these were being made directly to the treasurer and deposited into the fraternity's main account. This would not have been a problem had

sufficient funds for the summer rent been appropriately transferred to the house manager account. These funds could amount to between \$5,400 and \$8,100, which accounts for six residents paying \$450 per month to cover three summer months. The range reflects whether payments for the month of June had been collected or not.

It appeared to Mark that the treasurer's mishandling of rent collections could have created the appearance of as much as \$8,100 in surplus funds in the main fraternity account. Since there were insufficient funds to cover the \$2,400 rent check in either of the fraternity accounts, much of the \$8,100 was likely spent on other fraternity activities over the course of the spring term. The mystery of the missing funds was seemingly solved. In his finance classes, Mark was taught that this is termed a misallocation of funds.

EPILOGUE: MYSTERY SOLVED - PROBLEM UNRESOLVED

Mark unknowingly assumed responsibility for a position in which the former treasurer violated the trust and faith placed in him by his fraternity brothers. Whether consciously or the result of incompetence, the former treasurer left his brothers in bad financial condition. Mark found himself in a position of accountability to a bank that refused to help, yet wants to know why he is writing checks with insufficient funds in the subject account. He is also being held accountable by an angry landlord who will not take the time to understand his position. So, in the short term Mark is asking himself what he should do next. In the long-term, as a loyal fraternity brother Mark feels compelled to straighten out this mess and ensure that it does not happen again.

Mark will not have all the facts of the case until he can see the actual bank records, which will not happen for another two months. He has been in the fraternity for three years and after reflecting back upon this past spring he does not recall any extraordinary events or evidence of expenditures that would set this year apart from others. He is concerned about the one brother's comment that the former treasurer did not pay his rent, as required. Mark's final thoughts are that the former treasurer seemed to leave without notice, ceased communication, and was being protected by his parents. Mark is left wondering whether he should have faith that this former fraternity brother was actually doing right during his time in office.