

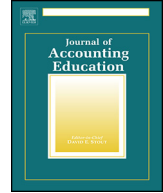


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## Educational Case

# A river runs between them: An instructional case in professional services provided by a CPA firm



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### ABSTRACT

This instructional case presents a realistic situation in which there is a request for professional services by a CPA firm. Two towns, Weston and Easton, are involved in a dispute over the costs of a shared wastewater treatment facility. The mayor of Easton believes his town has paid more than its agreed-upon share of the facility's operating costs over the years. The mayor of Easton has approached a local CPA firm to "audit" the amount Easton has paid towards operation of the plant and determine the amount of the overpayment. Students are asked (1) to determine whether an audit can be performed, (2) if an audit cannot be performed, to decide what type of service is appropriate, (3) to research the applicable professional standards, (4) to assess whether the applicable standards can be met, (5) to develop a program that outlines the steps/procedures to be completed when providing the professional service to the mayor, and (6) to identify other concerns relevant to accepting this engagement.

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## 1. The Clean Water Act of 1972

On June 22, 1969, the Cuyahoga River in Cleveland, Ohio, caught fire when flammable liquids on its surface ignited. Those liquids were dumped into the river by industry along its banks. Ten months later, on April 22, 1970, the first Earth Day was observed. Many mark the first Earth Day as the start of the modern environmental movement in the United States. The increased public concern about the

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environment in the 1970s encouraged the U.S. Congress to pass and the President to sign laws designed to protect the environment. One of these laws was the Clean Water Act of 1972 (CWA).

The CWA consists of two major components. The first component regulates the pollution of surface water (such as lakes and streams) from wastewater discharged from industry and municipalities. These regulatory provisions included the requirement that industries install Best Practical Technologies (BPT) for the treatment of wastewater discharges by 1977. The second major component provides federal aid to municipalities to construct new wastewater treatment plants which will meet the Act's requirements (Copeland, 2010, p. 1).

## 2. The two towns

### 2.1. History

Easton, Minnesota, was established by North Shore Mining in 1875 as a company town for the workers employed in its iron mines in the area. All land, buildings, businesses and infrastructure (including streets and utilities) in Easton were developed, owned and maintained by North Shore. Two years later, the rival Metal Ore Mining Company established a similar company town, Weston, directly west across the St. John River from Easton.

Both Easton and Weston continued as company towns until shortly after World War II. In 1947, the two mining companies sold the houses and businesses in the two towns to their occupants. Ownership of the streets and other infrastructure, including the sewer systems, was transferred to the respective city governments.

### 2.2. Impact of Clean Water Act

Passage of the CWA presented both Easton and Weston with a major challenge. The towns were not in compliance with the new regulations. The water from the sewer systems of both towns emptied directly and untreated into the St. John River approximately one mile downstream. Also, the sanitary and storm (for rainwater) sewer systems for each town ran through the same set of sewer lines. To comply with the CWA the two towns were required to construct wastewater treatment capacity sufficient to handle both normal sanitary sewage discharge and storm water runoff from a "hundred year rain." (A "hundred year rain," the largest amount of rainfall that could fall in one day in any one year with a probability of 1% or greater, is often used to establish the minimum size requirement for a municipal storm sewer system). Clearly, the towns would need to upgrade their wastewater treatment to meet the new law's provisions.

### 2.3. Construction and operation of treatment plant

In 1973, both towns commissioned engineering studies to evaluate the feasibility and costs of building and operating new wastewater treatment plants. Those studies indicated that the least costly alternative for both towns would be a shared treatment plant located on the Easton side of the river. Wastewater from Easton could be sent to the treatment plant via that town's existing discharge sewer line. Water from Weston could be sent to the plant via a new sewer line running under the river from Weston and connected to the existing Easton discharge sewer line between Easton and the treatment plant. See Fig. 1.

In 1975, the St. John River Water Authority (SJWA), a new governmental agency, was created to obtain a federal grant under the CWA, construct the plant and operate it. The grant was quickly obtained, and the new treatment plant and sewer lines from Weston were constructed in 1975. In early 1976 the plant began treating the two towns' wastewater.

The two towns agreed to cover the operating costs of the treatment plant in proportion to the amounts of water each sent to the plant. To measure the amounts of water, two meters were installed. The first meter was installed on the sewer line running from Weston to Easton where the sewer line entered the river on the Weston side of the river. This meter was used to measure the water Weston sent to the plant. The second meter was installed on the sewer line carrying both Easton's and Weston's water

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