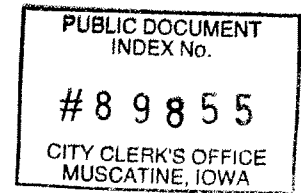


MEMO



To: City Council Members

From: City Audit Committee – Council Members Fitzgerald, Shihadeh and Bynum

Date: July 27, 2006

Re: Related Party Vendor Issue

The Audit Committee of the City of Muscatine met on July 20, 2006 and reviewed the requirements of Iowa Code section 362.5 as they pertain to continued City business transactions with Wilson True Value Hardware. The spouse of one of the owners of True Value was hired by the City on May 1, 2006 as an Equipment Operator in the City's Public Works Department.

While acknowledging the Iowa Code 362.5 provisions prohibiting transactions with related party vendors, the Audit Committee considered the specific circumstances with this employee and this vendor. These include the following:

1. True Value has been a City vendor for 25+ years prior to the hiring of this employee.
2. In 2005 the City made purchases totaling \$19,250 from this vendor. These purchases were made for various departments including Public Works, Parks, Housing and Water Pollution Control.
3. This employee is not in a position with decision-making authority and will not be involved in purchasing decisions for the City.

After lengthy discussion, the Audit Committee recommended that the City Council take the following action:

Allow City departments to continue making purchases from Wilson True Value Hardware with the following stipulations:

1. The volume of business with this vendor be monitored so that it does not increase significantly (not more than 10% annually) from the level prior to the hiring of this employee.
2. That these transactions can continue as long as this employee remains in a non-decision making, non-purchasing related position. In the event the job duties of this employee change to one with decision-making or purchasing responsibilities, True Value can be taken off the approved vendor list for the City.

Please include this item on the agenda for the August 3, 2006 City Council meeting.