

OFFICE OF THE STATE AUDITOR



Report on State and Local Government Contracting, FY15 and FY16

August 2017



TABLE OF CONTENTS

Executive Summary	1
Statewide Overview	2
Selected Industries: Construction	6
Selected Industries: Insurance & Benefits	7
Selected Industries: Corrections	8
Selected Industries: Educational Goods & Services	9
Procurement Types Overview	10
Emergency Procurement	11
Sole Source Procurement	12
State Agency Procurement	13
School Procurement	14
Municipality Procurement	15
County Procurement	16
Best Practices and Recommendations	17
Purpose, Scope and Methodology	19

EXECUTIVE SUMMARY

Drawing on data that the Office of the State Auditor (OSA) collected from Fiscal Year 2015 (FY15) and Fiscal Year 2016 (FY16) audits, this Report on State and Local Government Contracting examines government procurement in all sectors statewide. This is the first report in recent times to bring transparency to procurement data from state and local governments, which was possible because of the OSA's unique oversight mandate. The Report covers over \$6 billion of large government contracts, and over 6,000 procurements.

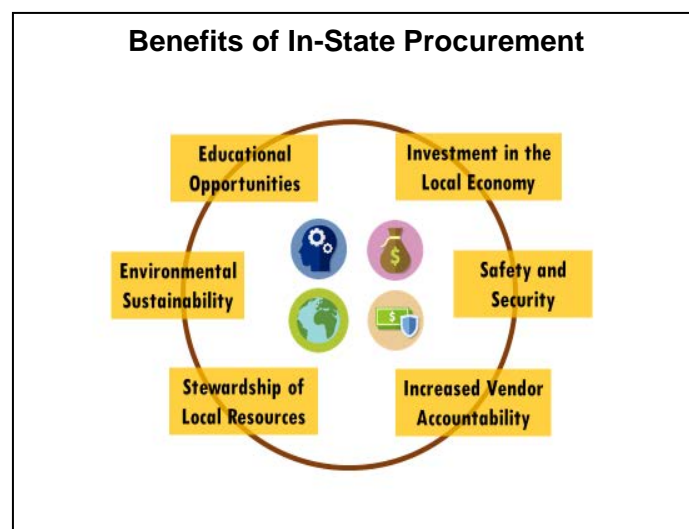
This Report is part of a series of OSA efforts to connect the dots between the areas of significant need in our state and the resources that are available with proper government management. These reports challenge the "myth of scarcity," which assumes that New Mexico is too poor of a state to address some of the biggest problems our state faces. State and local government agencies play a vital role in building our state's economy. When governments contract with New Mexico businesses, money flows directly into the local economy, helping to build tax revenue, creating jobs, and further strengthening the New Mexico economy. Overall, governments reported that 68% of contract dollars went to companies located within New Mexico. However, when construction, architecture and engineering (A&E), and insurance and benefits contracts are removed, the in-state contract percentage drops to less than half (49%).

Local procurement has many benefits in addition to creating economic opportunities. By developing a local procurement program, agencies can work with educational institutions to build a pipeline in careers for which the government creates demand. "Buying local" can be good for the environment, by reducing the ecological impacts of transport. Especially in the area of food services, in-state purchases can offer increased safety and security. Finally, intangible benefits may arise from a vendor being personally invested in the community it is serving, and from agencies having direct relationships with vendors.

Earlier this year, the OSA released a Special Audit of State Agency Procurement, which revealed instances in which state agencies avoid the lengthy and complex full competitive bidding processes by using loopholes to procurement laws. In this Report, the OSA connects these practices to their outcomes, including the prevalence of out-of-state contracts when agencies use methods other than competitive bidding.

This Report highlights opportunities and recommendations for improvement, including the following:

- After understanding the dynamics that currently exist, agencies can improve in-state purchasing by establishing institution-wide local purchasing goals.
- The industries of corrections (96%), information technology (IT) (83%), and food services (78%) have very high rates of out-of-state contracts, although the data also suggest that in-state vendors are offering some of the necessary services.
- Only 10% of emergency procurements and 34% of sole source procurements resulted in contracts with in-state vendors. By reducing reliance on emergency and sole source procurements, agencies can increase transparency and provide more opportunities for New Mexico vendors.



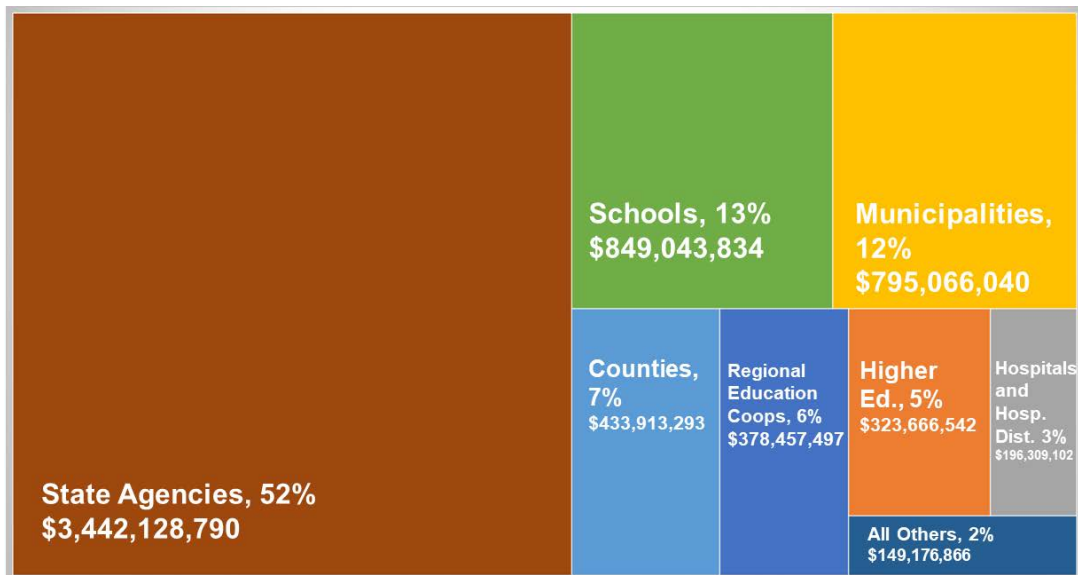
EXECUTIVE SUMMARY

- By recognizing the patterns behind out-of-state contracting, higher education institutions can work with local vendors to build capacity in areas like educational goods and services (over \$92 million in out-of-state contracts) and program management and assessment (over \$41 million in out-of-state contracts).
- Agencies can increase the positive local impact of contracts with national vendors by requiring minimum numbers of local employees or graduates of local educational institutions to be used on New Mexico projects.
- Although this Report focuses on large contracts with a value of \$60,000 or more, opportunities exist to expand opportunities for local businesses in their smaller purchases as well. For example, State Auditor Keller issued an Executive Order that gives New Mexican businesses an even playing field by removing taxes from the consideration of price in procurements, to take into account the fact that tax rates for out-of-state bidders are often more favorable.

STATEWIDE OVERVIEW

State and local government agencies reported over \$6.5 billion in government contracts in FY15 and FY16. As shown below, state agencies make up over half of reported contracts (52%), but significant contracting occurs at the school district, municipal and county levels.

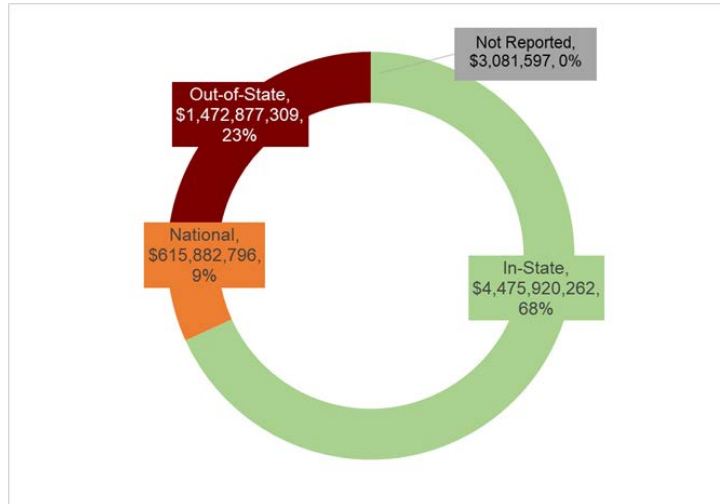
Total Government Contracts, by Agency Type



STATEWIDE OVERVIEW

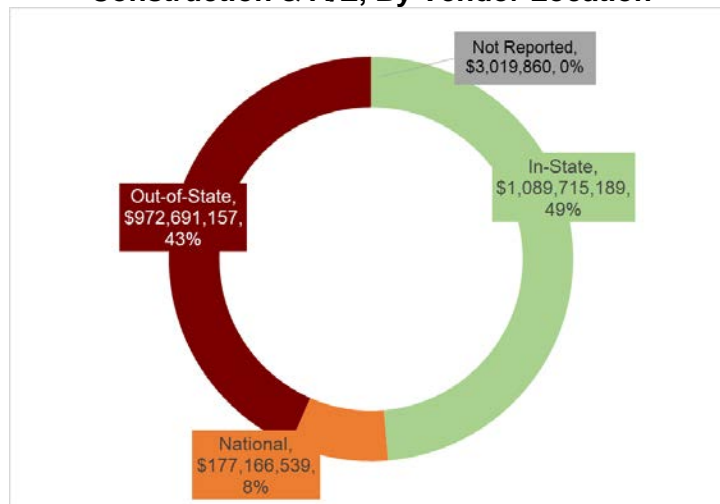
Statewide in all industries, 68% of contract dollars went to in-state companies. Twenty-three percent went to out-of-state companies. Another 9% went to “national vendors,” a category the OSA created to capture national firms with a local presence who may have varying degrees of a physical or employer presence in New Mexico.

Total Government Contracts, All Industries, By Location of Vendor



While these figures are promising, an industry-by-industry evaluation reveals that certain large industries with strong in-state procurement shift the overall numbers in a positive direction. Specifically, when construction, architecture and engineering (A&E), and insurance and benefits contracts are removed, the in-state contract percentage drops to less than half (49%).

Total Government Contracts, All Industries Except Insurance, Construction & A/E, By Vendor Location



The initial data that the OSA received suggested that most agencies are not keeping track of whether their purchases are with in-state or out-of-state vendors. Tracking in-state purchases is a necessary first step. Unfortunately, for state agencies using the Statewide Human Resources Accounting and Reporting system (SHARE), vendor files do not provide an option to identify vendors as in-state or out-of-state.

STATEWIDE OVERVIEW

Agencies currently need to compile every purchase file manually to understand their in-state purchasing dynamics, instead of generating a report from SHARE.

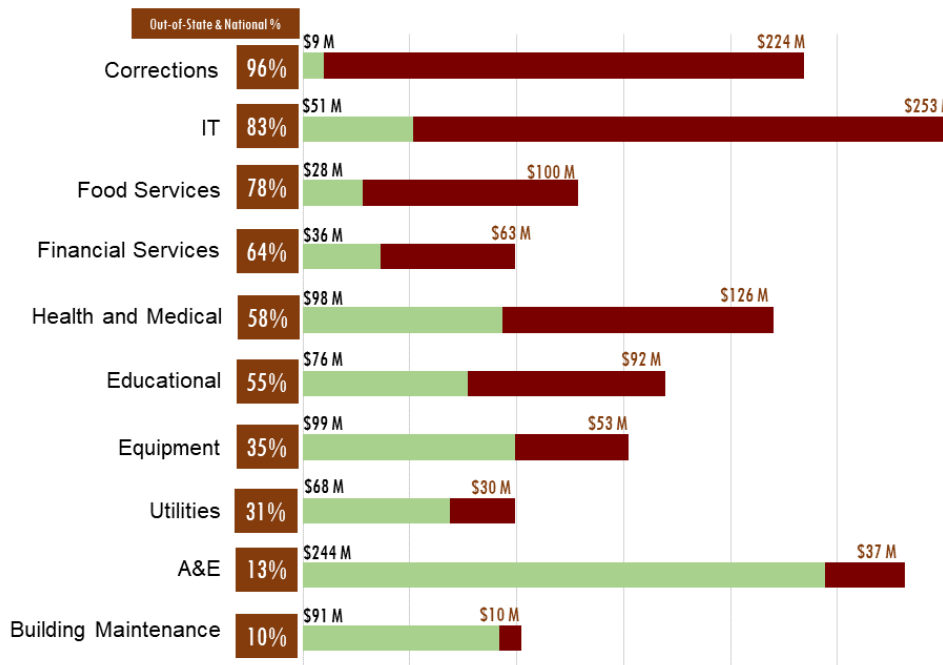
After understanding the dynamics that currently exist, agencies can improve in-state purchasing by establishing institution-wide local purchasing goals. Achieving these goals may also involve active outreach with local vendors or adding in-state factors to procurement scoring criteria.

With over \$615 million in contracts, national vendors, meaning vendors with a nationwide presence and varying degrees of local presence, also figure prominently in the statewide procurement picture. State and local governments can increase the positive local impact of contracts with national vendors by requiring minimum numbers of local employees or graduates of local educational institutions to be used on New Mexico projects.

Statewide trends also suggest the need for training. Agencies reported that for contracts awarded through competitive procurement to in-state vendors, about one-third of the vendors did not utilize the in-state vendor preference. It would be useful to understand any institutional barriers to taking advantage of this program, which is offered through the Taxation and Revenue Department. In addition, interviewees from the in-depth OSA reports on the IT and food sectors highlighted the need for training and technical support regarding the procurement process and how to find bidding opportunities, including Spanish translations of requests for proposals (RFPs).

Statewide, the industries with the largest contract values were construction, insurance and benefits, IT, A&E and corrections. [Appendix A](#) contains the in-state and out-of-state data for all industries.

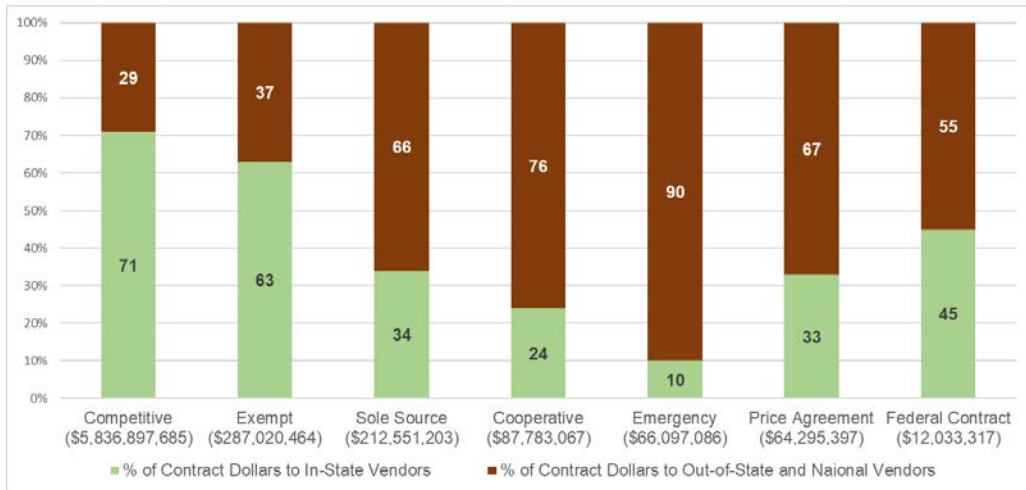
Top Ten Industries by Total Contract Value, Ordered by Out-of-State and National Vendor Percentage



STATEWIDE OVERVIEW

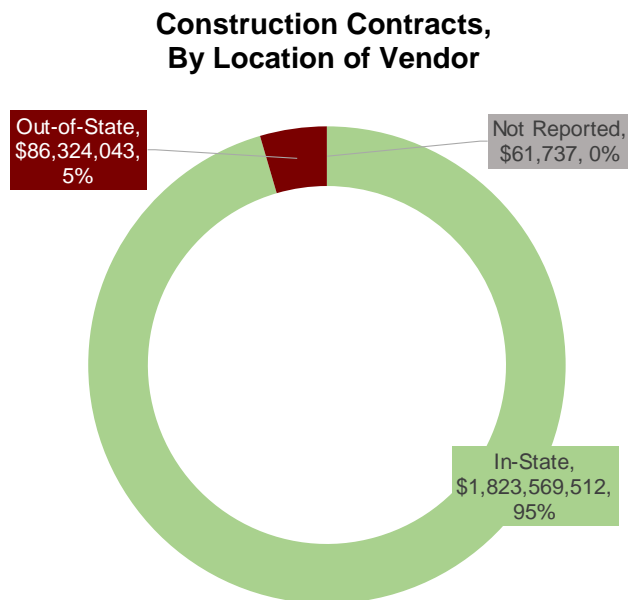
With regard to procurement types, the majority of reported procurements statewide (89%, or over \$5 billion) were competitive. The extent to which procurement methods yielded contracts with in-state vendors varied widely. Competitive procurements resulted in 71% of contract dollars going to in-state vendors, while emergency procurements resulted in only 10% going to in-state vendors.

Percentage of Contract Value Going to In-State Vendors, by Procurement Type
(Total contract dollars from each procurement type)



SELECTED INDUSTRIES: CONSTRUCTION

The construction industry saw the highest value of reported contracts, and reported 95% of contracts going to in-state vendors. This likely reflects the use of the in-state preference in RFP scoring (see page 17) as well as the need for local licensure to do construction.



Construction Contracts, By Procurement Type		
Procurement Type	Contract Value	%
Competitive	\$1,898,352,747	99%
Sole Source	\$3,576,377	<1%
Cooperative	\$3,345,774	<1%
Price Agreement	\$1,464,614	<1%
Emergency	\$1,289,185	<1%
Federal Contract	\$1,227,250	<1%
Exempt	\$699,345	<1%

Largest Reported Construction Contracts Statewide

1. KBK Construction contract with City of Gallup, \$51,436,489, FY15
2. Bradbury Stamm contract with Deming Public Schools, \$47,159,000, FY16
3. Bradbury Stamm contract with Carlsbad Municipal Schools, \$41,654,484, FY15
4. Bradbury Stamm contract with Carlsbad Municipal Schools, \$32,133,680, FY16
5. James Hamilton Construction contract with Department of Transportation, \$25,199,423, FY16

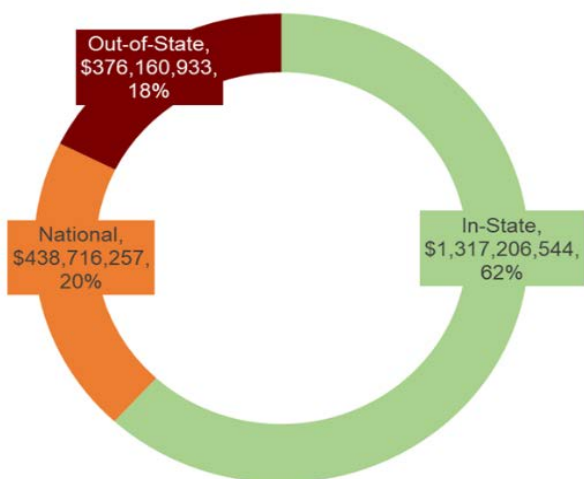
Agencies with Most Reported Construction Contracts, By Dollar Value, FY15-FY16

Agency	Total Value of Construction Contracts	Location of Vendors	
		In-State	Out-of-State
Department of Transportation	\$333,631,111	In-State	93.8%
		Out-of-State	6.2%
Albuquerque Public Schools	\$135,728,016	In-State	100%
		Out-of-State	0%
Cooperative Educational Service	\$135,192,922	In-State	99.9%
		Out-of-State	0.1%
City of Albuquerque	\$96,071,381	In-State	99.8%
		Out-of-State	0.2%
Carlsbad Municipal Schools	\$73,788,165	In-State	100%
		Out-of-State	0%

SELECTED INDUSTRIES: INSURANCE AND BENEFITS

Contract data for insurance and benefits was strongly affected by the fact that the Retiree Healthcare Authority (RHCA) procured several multi-year contracts with providers.

**Insurance and Benefit Contracts
By Location of Vendor**



**Insurance and Benefit Contracts,
By Procurement Type**

Procurement Type	Contract Value	%
Competitive	\$2,103,073,687	99%
Exempt	\$18,299,629	<1%
Emergency	\$7,500,000	<1%
Sole Source	\$3,110,418	<1%
Cooperative	\$100,000	<1%

Largest Reported Insurance and Benefit Contracts Statewide

1. Blue Cross Blue Shield of New Mexico contract with RHCA, \$424,575,000, FY16
2. Blue Cross Blue Shield of New Mexico contract with RHCA, \$258,100,000, FY15
3. Presbyterian Health Plan, Inc. contract with General Services Department, \$162,129,000, FY16
4. Express Scripts contract with RHCA, \$160,000,000, FY16
5. Presbyterian Health Plan, Inc. contract with RHCA, \$154,225,000, FY16

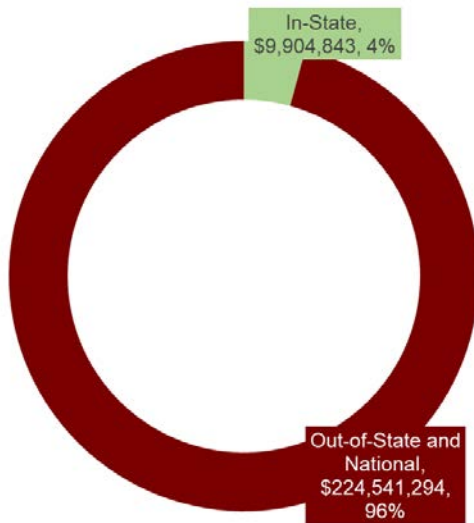
Agencies with Most Reported Insurance and Benefit Contracts, By Dollar Value, FY15-16

Agency	Total Value of Insurance & Benefit Contracts	Location of Vendors	
		In-State	Out-of-State and National
Retiree Health Care Authority	\$1,424,190,000	In-State	71%
		Out-of-State and National	29%
New Mexico Public Schools Insurance Authority	\$302,604,464	In-State	31%
		Out-of-State and National	69%
General Services Department	\$263,129,000	In-State	62%
		Out-of-State and National	38%
University of New Mexico Hospital	\$36,500,000	In-State	0%
		Out-of-State and National	100%
Doña Ana County	\$25,869,556	In-State	32%
		Out-of-State and National	68%

SELECTED INDUSTRIES: CORRECTIONS

Contracting in the industry of corrections includes private management of correctional facilities and contracts for pharmaceuticals, goods and services within government-run facilities. Contracts related to construction undertaken by the Corrections Department are categorized within the construction industry. The Procurement Code contains an exception for contracts entered into by a local public body with a private independent contractor for the operation, or provision and operation, of a jail.

**Corrections Contracts
By Location of Vendor**



**Corrections Contracts,
By Procurement Type**

Procurement Type	Contract Value	%
Competitive	\$144,725,679	62%
Emergency	\$49,721,609	21%
Sole Source	\$16,579,406	7%
Cooperative	\$14,370,668	6%
Exempt	\$5,948,042	3%
Price Agreement	\$3,100,732	1%

Largest Reported Corrections Contracts Statewide

1. Correctional Healthcare Companies contract with Bernalillo County, \$49,190,499, FY15
2. Centurion Correctional Healthcare contract with Corrections Department, \$41,000,000, FY16
3. Corizon, Inc., contract with Corrections Department, \$36,394,471, FY15
4. Corrections Corporation of America contract with Corrections Department, \$16,500,000, FY16
5. Community Education Centers contract with Corrections Department, \$15,280,247, FY16

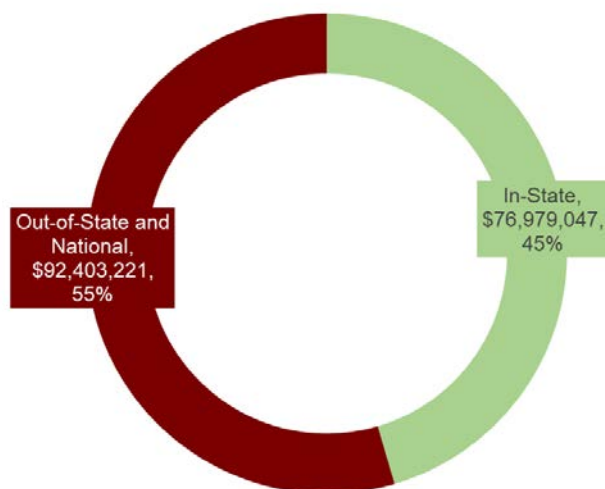
Agencies with Most Reported Corrections Contracts, By Dollar Value, FY15-16

Agency	Total Value of Insurance & Benefit Contracts	Location of Vendors	
		In-State	Out-of-State and National
Corrections Department	\$ 149,563,063	In-State	6%
		Out-of-State and National	94%
Bernalillo County	\$64,835,221	In-State	0%
		Out-of-State and National	100%
Doña Ana County	\$12,301,139	In-State	0%
		Out-of-State and National	100%
Otero County	\$2,156,760	In-State	0%
		Out-of-State and National	100%
Chaves County	\$1,480,836	In-State	0%
		Out-of-State and National	100%

SELECTED INDUSTRIES: EDUCATIONAL GOODS AND SERVICES

The Procurement Code exempts regional educational cooperative purchases from State Purchasing Division (SPD) oversight, although such purchases are still subject to the Procurement Code. The Procurement Code does not apply to contracts for public transportation services.

**Educational Contracts
By Location of Vendor**



**Educational Contracts,
By Procurement Type**

Procurement Type	Contract Value	%
Competitive	\$121,562,503	72%
Exempt	\$28,973,697	17%
Sole Source	\$14,561,002	9%
Cooperative	\$3,545,792	2%
Price Agreement	\$613,288	<1%
Federal Contract	\$125,985	<1%

Largest Reported Educational Contracts Statewide

1. PC Specialists contract with Cooperative Educational Services, \$54,330,759, FY16
2. STS of New Mexico contract with Las Cruces Public Schools, \$5,080,963, FY16
3. Boone Transportation, Inc. contract with Gadsden Independent Schools, \$4,569,120, FY15
4. Boone Transportation, Inc. contract with Gadsden Independent Schools, \$4,144,395, FY16
5. Measured Progress contract with Public Education Department, \$2,374,634, FY16

Agencies with Most Reported Educational Contracts, By Dollar Value, FY15-FY16

Agency	Total Value of Educational Contracts	Location of Vendors	
Cooperative Educational Services	\$58,446,167	In-State	5%
		Out-of-State and National	95%
Gadsden Independent Schools	\$14,873,758	In-State	88%
		Out-of-State and National	12%
Department of Health	\$13,079,002	In-State	96%
		Out-of-State and National	4%
Children, Youth & Families Department	\$6,992,380	In-State	100%
		Out-of-State and National	0%
Public Education Department	\$6,170,921	In-State	3%
		Out-of-State and National	97%

PROCUREMENT TYPES OVERVIEW

The data on procurement types illustrates a strong correlation between competitive procurement and contracts with in-state vendors (71%). In contrast, emergency and sole source procurements resulted in only 10% and 34% of contracts, respectively, going to in-state vendors. By reducing reliance on emergency and sole source procurements, agencies can increase transparency and provide more opportunities for New Mexico vendors.

Total Government Contract Values, By Procurement Type, FY15 and FY16

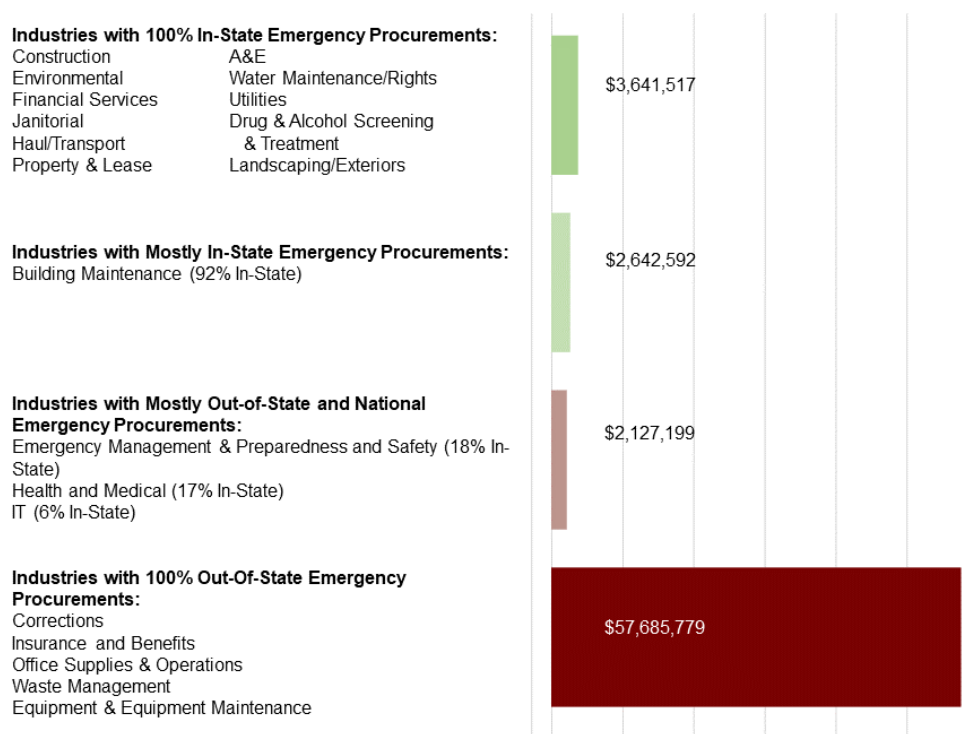
Procurement Type	Total Government Contracts	Location of Winning Bidders for this Procurement Type	
		In-State	Out-of-State & National
Competitive: Contracts that went through a full competitive procurement through an invitation to bid or request for proposals.	\$5,834,923,548 89%	In-State	71%
		Out-of-State & National	29%
Exempt: Contracts that were not subject to the Procurement Code because of the nature of the transaction or the agency.	\$311,619,199 5%	In-State	66%
		Out-of-State & National	34%
Sole Source: A purchase for which there is only one source that meets the requirements; the service or good is unique; and other similar services or goods cannot meet the intended purpose of the contract.	\$212,551,203 3%	In-State	34%
		Out-of-State & National	66%
Cooperative: This Report uses this as a broad term for multiple-agency procurements, including cooperative procurements or procurements by one agency on behalf of other agencies.	\$87,783,067 1%	In-State	24%
		Out-of-State & National	76%
Emergency: Contracts arising from an immediate and serious need for services or goods, the lack of which would seriously threaten: the functioning of government; the preservation of protection of property; or the health or safety of any person.	\$66,097,086 1%	In-State	10%
		Out-of-State & National	90%
Price Agreement: Contracts that result from the General Services Department's State Purchasing Division's competitive procurements on behalf of the State, as well as agency-procured price agreements.	\$64,295,397 1%	In-State	33%
		Out-of-State & National	67%
Federal Contract: Pursuant to Section 13-1-135, agencies may also purchase a good or service using the terms of a federal contract if the contract is submitted to and approved by the General Services Department.	\$12,033,317 <1%	In-State	45%
		Out-of-State & National	55%

EMERGENCY PROCUREMENT

Section 13-1-127, NMSA 1978 of the Procurement Code defines an emergency procurement as a purchase made in situations that create a threat to public health, welfare or safety, such as may arise by reason of floods, fires, epidemics, riots, acts of terrorism, equipment failures or similar events and includes the planning and preparing for an emergency response. Furthermore, the existence of the emergency condition must create an immediate and serious need for services, construction or items of tangible personal property that cannot be met through normal procurement methods and the lack of which would seriously threaten: (1) the functioning of government; (2) the preservation or protection of property; or (3) the health or safety of any person. The Governor of the State of New Mexico issued guidelines for contract review and re-evaluation in which she stated that a true “emergency” must exist for an emergency contract and states that emergencies do not exist simply from a need to procure the services “now” or from time pressure to implement a new contract.

As the following figure illustrates, emergency procurements result in contracts with out-of-state vendors for 90% of large contracts by value, in contrast to 71% of contract value remaining in-state when contracts are competitively procured. When examined by industry type, it becomes apparent that emergency procurements in just five industries creates this uneven result.

Emergency Procurements, By Industry and Location of Vendor, FY15 and FY16



The OSA’s August 2017 Special Audit of State Agency Procurement identified the risk that agencies were using the emergency exemption in circumstances that are not permitted by law, including a desire for convenience and misconceptions about the regular procurement process. That report recommended that agencies, especially their chief financial officers (CFOs) and chief procurement officers (CPOs), should review the model accounting practices issued by the Department of Finance and Administration (DFA) Financial Control Division related to emergency procurements.

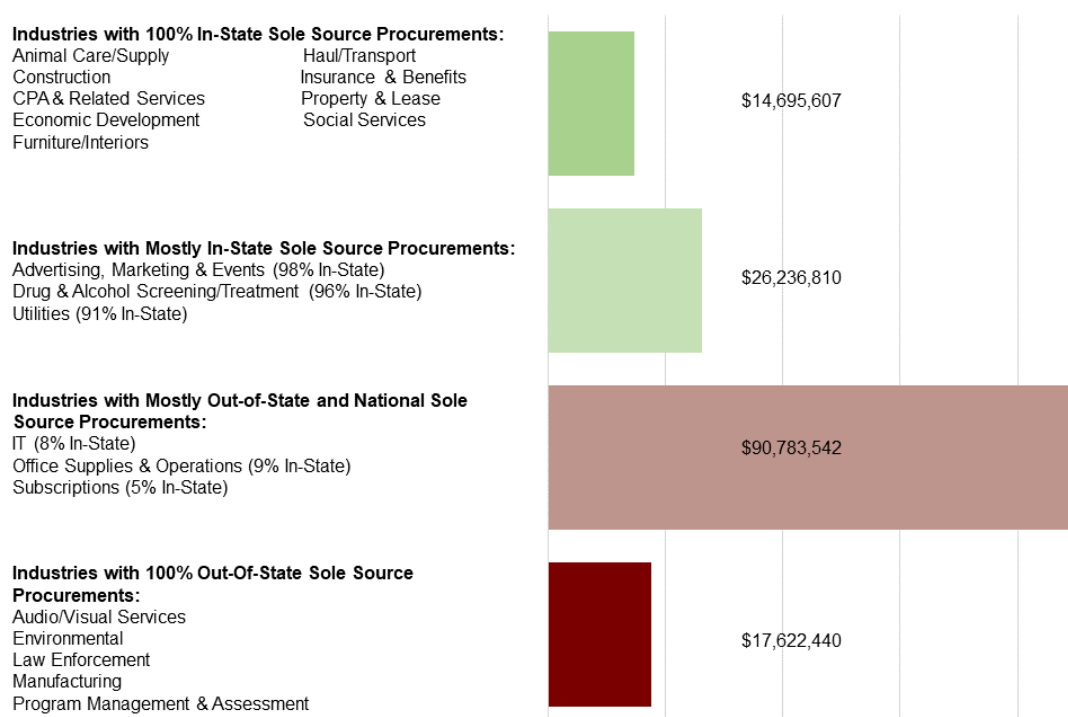
SOLE SOURCE PROCUREMENT

The Procurement Code defines a “sole source” procurement as a purchase wherein (1) there is only one source for the required service, construction or item of tangible personal property; (2) the service, construction or item of tangible personal property is unique and this uniqueness is substantially related to the intended purpose of the contract; and (3) other similar services, construction or items of tangible personal property cannot meet the intended purpose of the contract. Section 13-1-126, NMSA 1978. Such contracts may be awarded without competitive bids or proposals regardless of the estimated cost when SPD and/or DFA determines in writing that these criteria are met.

IT is by far the outlier in the sole source category, with over \$86 million in large sole source contracts reported statewide, of which 92% went to out-of-state and national vendors. The next largest industry for sole source procurement was utilities, with over \$21 million in large contracts reported statewide. However, while most of IT sole source procurements went to out-of-state vendors, only 9% of utilities sole source procurements went to out-of-state vendors.

The following figure illustrates that there is more complexity regarding the industries in which agencies are using sole source procurement and whether those contracts go to in-state or out-of-state vendors.

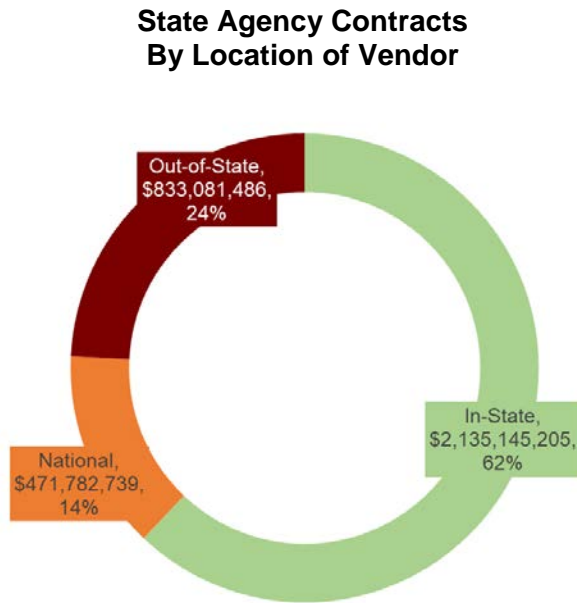
Sole Source Procurements, By Industry and Location of Vendor, FY15 and FY16



The OSA August 2017 Special Audit of State Agency Procurement identified several risk factors related to sole source procurement. Agencies excluded from oversight by DFA or SPD appeared to be less compliant with the Procurement Code requirements for sole source procurements. Procuring state agencies used the sole source exemption in circumstances that are not permitted by law, including a desire for convenience and assumptions about price. Oversight agencies, including DFA, Department of Information Technology (DoIT) and the SPD, did not always provide adequate scrutiny of sole source justification forms, resulting in the acceptance of forms that do not meet the requirements of a sole source purchase.

STATE AGENCY PROCUREMENT

State Agencies constitute more than half of all reported contracts statewide in FY15 and FY16 (52%). This is due in part to the large multi-year procurements of the RHCA.



Top Five Industries for State Agency Contracts		
Industry	Contract Value	% of Total
Insurance & Benefits	\$1,997,343,464	58%
Construction	\$374,489,819	11%
IT	\$183,954,071	5%
Corrections	\$174,611,797	5%
Health & Medical	\$136,741,002	4%

Top Ten State Agencies, By Reported Contract Value

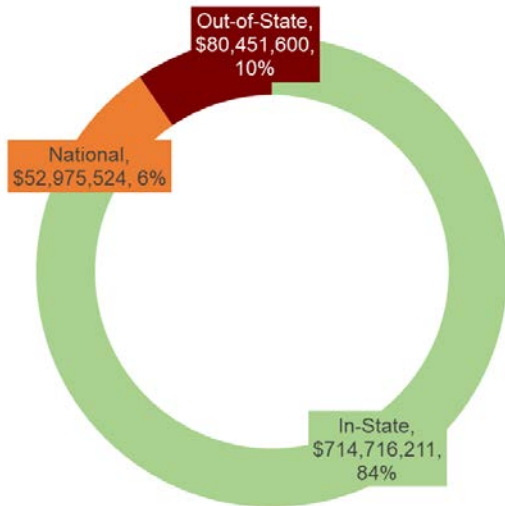
State Agency	In-State		Out-of-State and National		Total
	Contract Value	Percentage	Contract Value	Percentage	
Retiree Health Care Authority	\$1,014,510,765	71%	\$412,425,000	29%	\$1,426,935,765
General Services Department	\$286,496,923	69%	\$128,090,814	31%	\$414,587,737
Department of Transportation	\$367,246,586	94%	\$25,257,956	6%	\$392,504,542
New Mexico Public Schools Insurance Authority	\$95,251,589	31%	\$210,804,004	69%	\$306,055,593
Department of Health*	\$120,789,889	54%	\$101,914,412	45%	\$224,823,661
Corrections Department	\$22,086,889	12%	\$159,521,799	88%	\$181,608,688
Human Services Department	\$12,969,343	14%	\$78,213,246	86%	\$91,182,589
Children, Youth & Families Department	\$46,813,613	86%	\$7,428,413	14%	\$54,242,026
Public Defender Department	\$38,717,237	99%	\$331,019	1%	\$39,048,256
Taxation and Revenue Department	\$322,000	1%	\$37,500,600	99%	\$37,822,600
Department of Tourism	\$11,540,917	37%	\$19,624,601	63%	\$31,165,518

* No vendor location data was reported for Department of Health contracts with a value of \$2,119,360 (<1%).

SCHOOL PROCUREMENT

School contracts made up the second-largest share of all reported contracts statewide in FY15 and FY16 (13%). The category of “schools” include 89 school districts and three special schools: New Mexico School for the Deaf, School for the Blind and Visually Impaired, and the New Mexico Military Academy. Not surprisingly, schools closer to the borders of the state were more likely to contract with out-of-state vendors.

**School Contracts
By Location of Vendor**



**Top Five Industries for
School Contracts**

Industry	Contract Value	% of Total
Construction	\$532,088,772	63%
Food Services	\$82,635,662	10%
Educational	\$63,321,130	8%
Utilities	\$36,876,421	4%
IT	\$30,344,589	4%

Top Ten School Districts, By Reported Contract Value

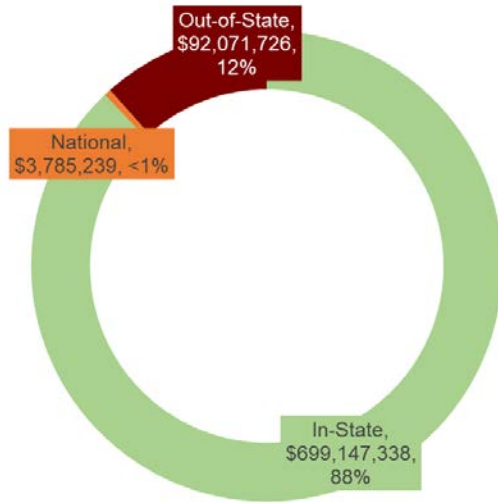
School District	In-State Vendors		Out-of-State and National Vendors		Total
	Contract Value	Percentage	Contract Value	Percentage	
Albuquerque Public Schools	\$177,143,122	80%	\$43,923,576	20%	\$221,066,698
Carlsbad Municipal Schools	\$85,868,733	91%	\$8,040,970	9%	\$93,909,703
Gallup-McKinley County Public Schools	\$51,528,571	71%	\$21,350,458	29%	\$72,879,029
Deming Public Schools	\$49,568,382	97%	\$1,296,082	3%	\$50,864,464
Gadsden Independent Schools	\$23,426,240	76%	\$7,371,652	24%	\$30,797,893
Las Cruces Public Schools	\$16,691,499	60%	\$11,026,348	40%	\$27,717,847
Zuni Public Schools	\$25,892,407	99%	\$210,000	1%	\$26,102,407
Grants Cibola County Schools	\$23,381,872	91%	\$2,250,460	9%	\$25,632,331
Santa Fe Public Schools*	\$22,993,350	92%	\$1,128,794	5%	\$25,022,644
Reserve Independent Schools	\$22,829,343	100%	\$0	0%	\$22,829,343
Rio Rancho Public Schools	\$16,689,120	73%	\$6,043,565	27%	\$22,732,685

* Santa Fe Public Schools did not report vendor location data for contracts with a value of \$900,500.

MUNICIPAL PROCUREMENT

Municipalities' contracts made up the third-largest share of all reported contracts statewide in FY15 and FY16 (12%). The category of municipalities includes only those that required full audits under the tiered system of the Audit Act. Twelve entities throughout the state are exempt from the Code as a result of "home rule," a system of self-government allowed for by the State Constitution, including the municipalities of Alamogordo, Albuquerque, Clovis, Gallup, Grants, Hobbs, Las Cruces, Las Vegas, Rio Rancho, and Santa Fe.

**Municipal Contracts
By Location of Vendor**



**Top Five Industries for
Municipal Contracts**

Industry	Contract Value	% of Total
Construction	\$487,080,071	61%
A&E	\$90,770,452	11%
Equipment & Equipment Maintenance	\$41,376,961	5%
Water Maintenance & Rights	\$24,523,190	3%
Building Maintenance	\$21,111,591	3%

Top Ten Municipalities, By Reported Contract Value

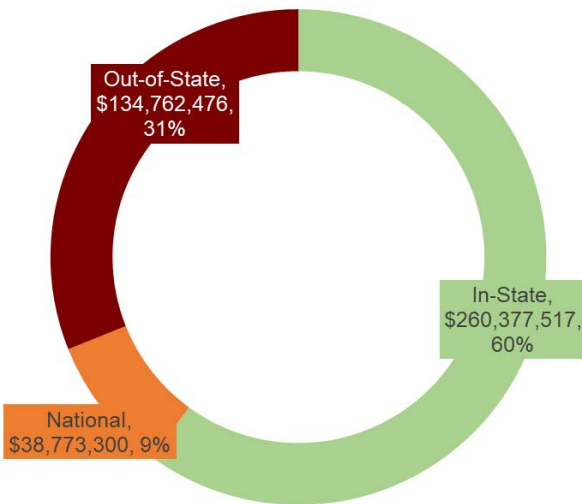
Municipality	In-State Vendors		Out-of-State and National Vendors		Total
	Value	Percentage	Value	Percentage	
City of Albuquerque	\$183,925,396	85%	\$32,843,954	15%	\$216,769,349
City of Gallup	\$74,726,086	93%	\$5,383,606	7%	\$80,109,692
City of Farmington	\$45,265,930	75%	\$15,230,292	25%	\$60,496,223
City of Rio Rancho	\$42,980,219	97%	\$1,460,908	3%	\$44,441,127
City of Las Cruces	\$38,072,562	87%	\$5,696,144	13%	\$43,768,706
City of Santa Fe	\$32,022,759	93%	\$2,254,380	7%	\$34,277,139
City of Carlsbad	\$26,740,580	90%	\$3,082,236	10%	\$29,822,815
Town of Taos	\$26,768,029	99%	\$357,000	1%	\$27,125,029
City of Hobbs	\$14,492,890	56%	\$11,577,270	44%	\$26,070,160
Albuquerque-Bernalillo County Water Utility Authority*	\$22,295,751	98%	\$456,842	2%	\$22,752,593

* The OSA included the Albuquerque-Bernalillo County Water Utility Authority under municipalities because it was historically included as a component unit of the City of Albuquerque but now reports as a standalone special purpose government.

COUNTY PROCUREMENT

Counties' contracts made up the fourth-largest share of all reported contracts statewide in FY15 and FY16 (7%). Los Alamos County (which is combined with the municipality of Los Alamos) is a "home rule" entity. Bernalillo County became a home rule county on January 1, 2017, but was not for the fiscal years covered by this Report.

**County Contracts
By Location of Vendor**



**Top Five Industries for
County Contracts**

Industry	Contract Value	% of Total
Construction	\$125,888,757	29%
Corrections	\$83,901,887	19%
Insurance & Benefits	\$50,162,720	12%
Equipment & Equipment Maintenance	\$27,550,061	6%
Food Service	\$16,611,543	4%

Top Ten Counties, By Reported Contract Value

County	In-State Vendors		Out-of-State and National Vendors		Total
	Contract Value	Percentage	Contract Value	Percentage	
Bernalillo County	\$55,089,687	40%	\$84,055,583	60%	\$139,145,270
Doña Ana County	\$68,121,714	56%	\$53,934,335	44%	\$122,056,049
Los Alamos County	\$44,055,343	83%	\$9,173,220	17%	\$53,228,564
Santa Fe County	\$13,909,308	65%	\$7,463,989	35%	\$21,373,297
Eddy County	\$13,608,217	90%	\$1,566,296	10%	\$15,174,513
Socorro County	\$7,667,035	95%	\$423,800	5%	\$8,090,835
Lea County	\$6,732,972	87%	\$992,997	13%	\$7,725,969
San Juan County	\$5,124,919	69%	\$2,262,983	31%	\$7,387,901
McKinley County	\$5,154,549	76%	\$1,666,328	24%	\$6,820,877
Rio Arriba County	\$6,591,160	97%	\$199,063	3%	\$6,790,222

BEST PRACTICES AND RECOMMENDATIONS

In the process of preparing this Report, the OSA learned of a number of innovative best practices and pilot programs occurring across the state and the nation. These included:

- Centralizing local purchasing efforts has been successful in a number of localities. For example, cities like San Diego and Phoenix have established local small business enterprise programs, with which they work to solicit heavily from local vendors, sometimes directing a minimum percentage of contracts to local vendors. Similarly, the city of Cleveland opted to move local procurement to the forefront of its governmental goals by assigning local contracting its own department within the mayor's administration.
- The availability of the in-state and veteran's preferences in competitive bidding processes appears to have bolstered in-state contracting. It is difficult to ascertain the precise effect of those preferences, but the data in this Report illustrates that competitive bidding is most likely to result in in-state contracts.
- Cooperative Educational Services has a number of initiatives to help school districts to facilitate local purchasing.
- The Corrections Industries Division (CID), launched a pilot program to "in-source" food for state correctional facilities. Working with New Mexico State University, the program works with inmates to build hoop houses for growing vegetables at the correctional facility in Santa Fe. CID is in the process of expanding the program to the correctional facility in Springer, New Mexico. In addition, CID's contracted food intermediary is on call to make up any gaps in the hoop house harvest.
- Santa Fe Public Schools structure their local food contracts in such a way that other school districts can "piggyback" and purchase those same goods without going through a new procurement process.
- Albuquerque Public Schools issues two food commodity requests for proposal: one targeted to local suppliers and one targeted towards larger intermediaries and food suppliers.
- The New Mexico Department of Agriculture has been working with smaller farm operators to develop relationships with processors and packagers that would not ordinarily be accessible to them.

Evaluating the data presented in this Report, the OSA determined the following conclusions and recommendations. In addition, the in-depth reports that the OSA has released regarding IT and food service procurement include detailed recommendations for those industries.

- The data reported to the OSA suggests that most agencies are not currently tracking their in-state purchases. After understanding the dynamics that currently exist, agencies can improve in-state purchasing by establishing institution-wide local purchasing goals. To help state agencies track in-state purchases, it would be helpful to establish a "check the box" option to denote in-state vendors in SHARE.
- The industries of corrections (87%), IT (83%), and food services (78%) have very high rates of out-of-state contracts, but the data also suggest that in-state vendors are offering some of the necessary services.

BEST PRACTICES AND RECOMMENDATIONS

- Only 10% of emergency procurements and 34% of sole source procurements resulted in contracts with in-state vendors. By reducing reliance on emergency and sole source procurements, agencies can increase transparency and provide more opportunities for New Mexico vendors.
- By recognizing the patterns behind out-of-state contracting, higher education institutions can work with local vendors to build capacity in areas like:
 - Educational goods and services (over \$92 million, 55% of contracts went out-of-state)
 - Program management and assessment (over \$41 million, 100% of contracts went out-of-state)
 - Human resources (over \$1 million, 44% of contracts went out-of-state)
 - Technical writing (over \$2 million, 41% of contracts went out-of-state)
 - Speech, language, occupational and physical therapy (over \$485,000, 100% of contracts went out-of-state)
- Agencies can increase the positive local impact of contracts with national vendors by requiring minimum numbers of local employees or graduates of local educational institutions to be used on New Mexico projects.
- Initiatives similar to State Auditor Keller's Executive Order Supporting New Mexico Businesses can level the playing field for local businesses by eliminating the uneven impact of tax rates on bids and price quotes.

Learn More

For more information on the studies and programs involving local purchasing, visit:

[Business Alliance for Local Living Economies, BALLE](#)

[Institute for Local Self-Reliance](#)

[The Democracy Collaborative](#)

To learn more about procurement, read the [Legislative Finance Committee's 2016 Report](#).

For more information on the OSA's work on procurement in New Mexico, visit:

[Chief Procurement Officer Risk Advisory](#)

[Special Audit of State Agency Procurement](#)

[OSA Executive Order Supporting New Mexico Businesses](#)

To learn more about programs that incentivize national companies to hire local people and the legal issues involved in those programs, read the [American Bar Association primer on local hiring programs](#).

PURPOSE, SCOPE AND METHODOLOGY

Purpose

The OSA set out to examine contracts and procurement because, prior to these efforts, a comprehensive picture of procurement statewide, across various agency types, was not readily available. Because it oversees the financial audits and examinations of every state and local government agency in New Mexico, the OSA is uniquely positioned to gather and analyze this data.

Scope

The scope of this Report is Fiscal Year 2015 (July 1, 2014 to June 30, 2015) and Fiscal Year 2016 (July 1, 2015 to June 30, 2016). This Report does not include vendor data from any audit report released after June 2, 2017.

Methodology

Through the Audit Rule, NMAC 2.2.2.1 et seq., the Office of the State Auditor required all audited agencies to self-report all contracts with a value that exceeded \$60,000 entered into during FY15 and FY16, regardless of how they were procured. Specifically, all audited agencies were required to prepare a Schedule of Vendor Information for contracts exceeding \$60,000 (excluding gross receipts tax) that included the following information:

- Type of procurement process
- Name and address of all vendors that responded to requests for bids or RFPs during the fiscal year
- The name of the vendor that was awarded the contract
- Whether the vendor identified as an in-state vendor for purposes of the in-state vendor preference
- If the vendor was in-state, whether they chose the veterans' preference instead of the in-state preference
- A short description of the scope of work
- The maximum dollar amount of the resulting contract

These are snapshots of just a portion of the contracts awarded by New Mexico state and local governments, as the data covers only those self-reported contracts for over \$60,000 in two fiscal years (FY15 and FY16). Therefore, any contracts, including professional services contracts, totaling less than \$60,000 were not required to be disclosed. The same data will be collected again for FY17, allowing for analysis of government contracting over three fiscal years.

Self-reported data should always be interpreted with caution, as such data can be prone to subjectivity and under- or over-reporting on the part of those reporting it. The data that was submitted in the schedule of vendors was unaudited, and was often incomplete, unclear, or inaccurate. The OSA used its best efforts to obtain clarifications on data that was clearly incorrect. The OSA also modified the instructions and template used to collect contract data for FY17 in an effort to provide for better accuracy and transparency.

The OSA removed entries for salaries, intergovernmental agreements that were not in the nature of a procurement (such as grants), contributions to benefit plans and other transactions that were not purchases of goods or services.

PURPOSE, SCOPE AND METHODOLOGY

Contract Value

The data used for this Report included contracts awarded in FY15 and FY16 (meaning the effective date of the contract was in FY15 or FY16) even if nothing was spent under those contracts. Maximum contract value is inherently different from expenditures. An agency may enter into a contract but not spend any money under that contract. Conversely, an agency may spend money under a contract awarded in a previous year or through mechanisms other than contracts. The data in this Report should not be combined or compared directly with expenditure data.

Certain agencies enter into contracts that do not state a maximum contract value. When a maximum contract value was not available, these agencies provided actual expenditures in order to assign a dollar value to the contract. Alternatively, in some cases, the OSA estimated a contract value using historical expenditure data.

The OSA used its best efforts to contact all agencies for which OSA had any uncertainties about contract amount. Specifically, the vendor schedule asks for an “amended contract amount.” Agencies used various approaches to completing this column: some gave the amount of the amendment, others gave the new total amount. OSA based its contract amount data on the total amount of contract value, including its amendments, to the extent possible. For the Department of Transportation, in order to avoid large overstatements of contract values, the OSA used expenditure data from the Sunshine Portal instead of contract values where the nature of the award was uncertain. Certain agencies reported unclear contract amounts, and when contacted, reported that no expenditures had been made under the contract during FY15 or FY16. As a result, certain contract values in the data set are zeroes. The City of Albuquerque reported certain change orders with a negative contract value in the amendment column. Because it was not always possible to determine which change orders related to which contracts, the OSA left the data as it was reported. As a result, certain contract values in the data set are negative numbers.

Procurement Type

The OSA did not include in its analysis any contracts that were listed as “small purchase” procurements, or contracts with a reported value under \$60,000 that did not list a procurement type. Because the Audit Rule did not require agencies to disclose small purchases, the OSA determined that including those few small procurements that were reported would be misleading.

The procurement type of “price agreements” includes the statewide price agreement and price agreements that agencies procured. Procurements reported as “real estate” or “land purchase” were included as exempt procurements. Procurements reported as “professional services” were moved into a more appropriate category based on contract size, nature and discussions with the agency.

When agencies provided information on goods and services purchased through multiple agency procurements, the OSA had no way of determining whether the initial procurement was conducted through competitive or non-competitive means.

Vendor Location

The Audit Rule required agencies to identify whether vendors indicated that they were eligible for the resident business preference, pursuant to Section 13-1-22, NMSA 1978. However, the OSA did not consider the answer to this question to completely resolve the issue of whether the vendor was an in-state business because the data identified many businesses that were clearly located in New Mexico but

PURPOSE, SCOPE AND METHODOLOGY

had not used the resident business preference. This Report describes vendors as in-state or out-of-state based on the primary address of the vendor, as the agency provided that address information to the OSA.

The OSA made the determination of whether to categorize a business as a “national vendor” based on publicly available information about the business, its locations and its reach in the marketplace. The category of “national vendor” includes vendors identified as “intermediaries” in the OSA’s report on food services procurement.

Other

The OSA internally classified all contracts into a number of industry sectors, based on contract descriptions.

As mentioned, based on other procurement studies that have been conducted in New Mexico, the OSA believes that agencies may have inadequately reported procurements made under exceptions to or exemptions from the Procurement Code. The OSA used its best efforts to obtain such information where possible and account for any gaps in the data in its analysis.

The data used in this study is available at the OSA website:

http://www.saonm.org/government_accountability_office

APPENDIX A: TOTAL CONTRACT VALUE, ALL INDUSTRIES, BY LOCATION OF VENDOR

Industry	In-State Vendors		Out-of-State and National Vendors		Grand Total
	Contract Value	%	Contract Value	%	
Insurance & Benefits	\$1,317,206,544	62%	\$815,025,102	38%	\$2,132,231,646
Construction	\$1,822,999,078	95%	\$86,324,043	5%	*\$1,909,384,859
IT	\$51,466,706	17%	\$253,398,148	83%	\$304,864,854
Architecture & Engineering	\$245,999,450	87%	\$37,553,264	13%	\$283,552,714
Corrections	\$9,904,843	4%	\$224,541,294	96%	\$234,446,137
Health & Medical	\$93,375,504	42%	\$127,187,029	58%	\$220,562,533
Educational	\$76,979,047	45%	\$92,403,221	55%	\$169,382,268
Equipment & Equipment Maintenance	\$99,175,574	65%	\$53,304,843	35%	\$152,480,418
Legal Services	\$126,930,557	94%	\$8,749,772	6%	\$135,680,330
Food Services	\$28,198,362	22%	\$100,417,231	78%	\$128,615,593
Building Maintenance	\$91,747,820	90%	\$10,196,672	10%	\$101,944,492
Financial Services	\$36,204,544	36%	\$63,230,816	64%	\$99,435,359
Utilities	\$68,675,049	69%	\$30,610,715	31%	\$99,285,764
Social Services	\$83,656,017	94%	\$3,576,617	4%	*\$88,947,994
Transportation	\$46,323,723	70%	\$19,716,738	30%	\$66,040,461
Water Maintenance & Rights	\$35,227,159	70%	\$15,459,339	30%	\$50,686,498
Landscaping & Exteriors	\$42,396,632	87%	\$6,078,190	13%	\$48,474,822
Program Management & Assessment	\$253,880	1%	\$41,035,308	98%	*\$41,693,188
Advertising, Marketing & Events	\$31,629,098	82%	\$6,821,460	18%	\$38,450,558
Consulting	\$11,867,712	40%	\$17,618,296	60%	\$29,486,008
Emergency Management & Preparedness and Safety	\$17,065,910	64%	\$9,606,731	36%	\$26,672,641
Environmental	\$20,971,540	91%	\$2,144,358	9%	\$23,115,898
Waste Management	\$17,011,985	91%	\$1,704,901	9%	\$18,716,886
Office Supplies & Operations	\$5,473,352	33%	\$11,363,628	67%	\$16,836,980
Property & Lease	\$14,703,866	90%	\$742,815	5%	*\$16,347,182
Fuel	\$3,866,359	30%	\$9,108,933	70%	\$12,975,292
Staffing and Temporary Workers	\$10,507,237	86%	\$1,772,283	14%	\$12,279,520
Janitorial	\$6,290,658	59%	\$4,392,913	41%	\$10,683,571
Furniture/Interiors	\$4,709,625	45%	\$5,643,207	55%	\$10,352,832
CPA & Related Services	\$8,183,874	80%	\$2,105,530	20%	\$10,289,404
Drug & Alcohol Screening & Treatment	\$7,572,004	77%	\$2,205,515	23%	\$9,777,519
Appraisal Services	\$6,715,531	83%	\$1,404,625	17%	\$8,120,156
Hauling & Transport	\$3,165,857	43%	\$4,225,454	57%	\$7,391,311
Research, Writing & Technical Assistance	\$3,425,750	59%	\$2,380,138	41%	\$5,805,888
Uniforms & Clothing	\$2,889,584	62%	\$1,782,575	38%	\$4,672,159
Renewable Energy	\$3,865,568	100%	\$0	0%	\$3,865,568

APPENDIX A: TOTAL CONTRACT VALUE, ALL INDUSTRIES, BY LOCATION OF VENDOR

Industry	In-State Vendors		Out-of-State and National Vendors		Grand Total
	Contract Value	%	Contract Value	%	
Manufacturing	\$125,084	3%	\$3,710,922	97%	\$3,836,006
Subscriptions	\$447,800	12%	\$3,158,339	88%	\$3,606,139
Claims Adjusting	\$3,209,728	90%	\$370,000	10%	\$3,579,728
Animal Care & Supply	\$1,548,255	44%	\$1,942,489	56%	\$3,490,744
Law Enforcement	\$3,048,870	96%	\$136,828	4%	\$3,185,698
Economic Development	\$2,605,499	93%	\$200,000	7%	\$2,805,499
Human Resources	\$1,315,437	56%	\$1,033,364	44%	\$2,348,801
Audio/Visual Services	\$1,068,625	47%	\$1,185,571	53%	\$2,254,196
Professional Development	\$385,732	18%	\$1,701,492	82%	\$2,087,224
Human Resources	\$1,119,000	75%	\$375,000	25%	\$1,494,000
Housing Services	\$1,385,826	100%	\$0	0%	\$1,385,826
Day Care Services	\$1,290,000	100%	\$0	0%	\$1,290,000
Weapons & Ammunition	\$0	0%	\$521,894	100%	\$521,894
Speech/Language/Physical/ Occupational Therapy Services	\$0	0%	\$485,653	100%	\$485,653
Travel	\$374,263	78%	\$106,850	22%	\$481,113
Fitness Services	\$434,590	100%	\$0	0%	\$434,590
Environmental	\$357,998	100%	\$0	0%	\$357,998
Project Management	\$239,680	100%	\$0	0%	\$239,680
Legislative Relations & Lobbying	\$187,664	100%	\$0	0%	\$187,664
Sales	\$140,210	100%	\$0	0%	\$140,210
Grand Total	\$4,475,920,262		\$2,088,760,105		\$6,567,761,964