QUEENSLAND HEALTH PAYROLL SYSTEM
COMMISSION OF INQUIRY

Statement of Witness

Name of Witness	Craig Joseph VAYO
Date of Birth	███████
Address and contact details	Known to the Commission
Occupation	Not currently employed
Officer taking statement	
Date taken	25 / 02 /2013

I, Craig Joseph VAYO state:

Background

1   Bachelor of Applied Science (Computing Science) with First Class Honours from New South Wales Institute of Technology - May, 1985

2   Graduate Certificate in Information Technology (Project) from Queensland University of Technology - 2002

3   I have been employed by the Queensland Government since June 1986. Since 1986 I have had a role in government with financial management and later with HR payroll solutions.

   (a) From 1986 to 1992 I worked in Queensland Treasury as part of the Financial System Support Group.

   (b) From 1992 to 1996 I managed the financial management systems at the Department of Primary Industries.

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(c) My role moved as departments amalgamated corporate services to the Corporate Services Agency in 1996, where I was responsible for financial management and HR/Payroll systems for the Department of Natural Resources and the Department of Primary Industries.

(d) In 2003 my position was transferred to CorpTech where I was Director of Cross-Functional Applications.

(e) In early 2005 through to January 2007 I took an extended period of leave, as referred to below.

(f) In March / April 2007 I worked in the Shared Services Implementation Office (SSIO). Following the delivery of the Service Delivery and Performance Commission (SDPC) report in 2007, some of the functions of SSIO were assumed back to CorpTech.

(g) At the end of 2007 I joined the Solution Design Authority (SDA) which was part of CorpTech. I reported to Terry Burns and David Ekert, I believe it was through Brett Matthews. I was responsible for Quality and Benefits.

(h) On 30 June 2008 I was seconded across to Queensland Health into the Queensland Health Enterprise Solutions Transition (QHEST) program management office.

(i) Following problems with the implementation of the payroll, QHEST was transferred to the Information Division and our unit became Corporate Business Solutions and I held the role of Director, Portfolio and Benefits Management. I remained in that role until November 2011 when I accepted the offer of a voluntary separation agreement and I left Queensland Health.

Shared Services Initiative (SSI)

4   My understanding is that sometime around 2002 KPMG, a consultant company, provided advice on the SSI to a project called Aligning Services and Priorities, known

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as the ASAP project.. In July 2003 all corporate services functions transferred to the shared service providers, and to CorpTech as a technology service provider.

5   I was not involved in making the decision to implement Systems Applications and Products (SAP) for the whole of government HR/Payroll which I believe was in 2005, I was involved in the selection of SAP for financial management back around 1994.

6   During 2003 through to early 2005, I was concerned that the wrong approach was being taken with the SSI especially with regards to the approach to develop a new solution within a single instance. I had raised this at a number of meetings on a number of occasions and in a final meeting I had with my boss Susan Mahon in her office, I said something like *"If you keep going the way you're going to go, you're going to spend hundreds of millions of dollars on this thing"*.

7   My concerns were not addressed and amongst other things, this caused me some stress. At this time around February 2005 I sought medical advice and took about 18 months off in extended sick leave, long service leave, recreation leave and some leave without pay. I had spoken to my doctor about my concerns not being addressed at work and I decided the best thing was to just walk away.

8   I returned to work in the Shared Services Agency (SSA) in January of 2007 and later in SSIO around March 2007.

Review by Arena Consulting

9   Gary Uhlmann from Arena Consulting had conducted an earlier review of the Shared Services Solutions (SSS) Program in 2006.

10   In early 2007, as Executive Director, SSIO, I understood that Barbara Perrott had some concerns about ongoing issues with SSS and the implementation schedule (Schedule 9) and had commissioned a strategic review of the SSI by Arena Consulting.

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11   While I have seen the Arena reports, I did not have any direct involvement in the Arena review (2007) other than perhaps providing some background information concerning the SSI.

Review by Terry Burns

12   I first met Terry Burns when he was involved in the 2007 Arena review. I believe that he was initially working for Arena. My understanding is that Terry came in for a few weeks, made some assessments and recommendations to the Under Treasurer and the review extended into another couple of phases to replan the initiative.

13   My understanding is that Terry recommended the adoption of a prime contractor model which would put a fixed price around the systems development. He also recommended that we perform a Request for Information (RFI) to test the viability of the proposal in the market. These recommendations were adopted.

Request for Proposal & ITO

14   I am aware that in August or September 2007 a Request for Proposal (RFP) was put to the open market prior to an Invitation to Offer (ITO) which resulted in the contract between the State and IBM dated 5 December 2007.

15   My view was that the time frame was very compressed given the scale of what was to be done but I understand there was urgency given the considerable cost blow-outs and delays in the SSS program.

16   At this time I was working in Benefit Realisation in SSIO.

Tender Evaluation

17   I recall attending a number of meetings where the vendors gave presentations on their solutions during the RFP/ITO process. I don't recall how many meetings or where they were held. I do recall the meetings at 61 Mary Street where we reviewed the formal tender responses against the evaluation criteria.

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18   My observation was that probity was maintained at all times during this process. We signed declarations of interest and had to declare potential conflict. The ITO process meetings and documentation were in locked rooms, we didn't have access to information outside of hours. We didn't know what the dollar amounts were until the end of the evaluation process. We weren't even allowed to bring USB sticks in to the evaluation room.

19   Terry Burns was leading the ITO process. My understanding of his role was that he was a project manager for the process.

20   The Evaluation Panel for the tender evaluation was divided into teams. I sat on the Evaluation Panel as the lead for the Benefits team. The team comprised of myself and Joanne Boland. Joanne worked in Queensland Health payroll.

21   The assessment criteria for the Benefits team would have been written by myself.

22   We did the evaluation in pairs or teams then we came together for the final scoring.

23   When we did the assessments, each of us read the each tender response and scored the response against the criteria, it was a moderated process where we jointly agreed on a score.

24   I have been shown a copy of the Team Evaluation Report for the Benefits Team dated 19 October 2007. **Annexure A** to this statement is a copy of that report.

25   The Benefits team favoured IBM and I admit I pushed for IBM because they stood out from all the tenderers in the following ways:

      a) They had a solution to address the risk with Lattice at Queensland Health. They had proposed Workbrain which would not only provide Rostering functionality but that they had proposed the innovative use of Workbrain as a solution accelerator to do the award interpretation for Queensland Health and the rest of government;

    b)   IBM understood that withdrawal of the LATTICE payroll system was imminent – it was going to cease on 30 June 2008 – and had arranged with the vendor for an extension of support for LATTICE to allow it to continue while a new solution was being built;

    c)   They had knowledge of Queensland Health as a stakeholder; and

    d)   They gave an undertaking during the ITO process that they would address the issues that were being experienced with the Department of Housing payroll performance as it was taking a long time to produce the payroll and there were only 1200 employees.

26   IBM stood out. We had discussions around the table of the Evaluation Team and it was a consensus driven approach and I was pretty strong on the point of view that IBM's proposal had strength.

27   I can recall me strongly making the point that "*Hey, IBM have got a solution for Queensland Health. They are addressing the issues with schedule 9, the implementation delays. They're addressing the payroll performance*".

28   The business evaluation was done before we saw the dollars. We had a process where we went and did some referee checking and that was done in a group environment. I recall there were telephone hook ups. I think we did one for Accenture with the Singapore Army and we spoke to somebody in the United States, it might have been Disneyland, about the use of Workbrain in the rostering environment. There were others as well, I think we may have spoken to Bunnings about Workbrain.

29   Information used in the evaluation process was provided in the tender responses, during presentations and subsequently if we wanted clarification.

30   My understanding was that there were strict requirements on how tenderers could communicate with the evaluation team in that it all had to be in writing and archived. If some information had come out that was relevant to the evaluation, I thought it had to

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go to all the tenderers. Obviously, not giving IBM's information away to Accenture or *vice versa*. I believe this was managed through the Procurement unit.

31 I was never asked to re-evaluate or moderate the Benefits Team evaluation assessment by Terry or anyone else. I am not aware of Terry Burns influencing the outcome of the ITO in any way. There's no way that Terry Burns could have influenced the whole process. There's no way one person like that could influence the outcome and to my recollection he did not. If somebody like Terry, an outsider, tried to come in and influence us, I wouldn't stand for it. Some of the people there were senior people. You're not going to have some consultant come in from outside and try to sway a process. It just doesn't work.

32 I was not aware of any information being given to IBM that the other tenderers did not have.

33 I do not recall Terry having a preference for one tenderer over another. Absolutely not.

Price

34 I was not aware of the price submitted by each respondent in my role as team leader of Benefits.

35 It was my understanding that IBM won the tender on the strength of their bid and the strength of their promises. The price issue was quarantined.

36 It was even more startling when we saw the money because IBM happened to be the cheapest as well, so it was a win, win.

37 We found out this after all the team assessments had been made. I can't recall the exact sequence but it was way, way towards the end. All the business evaluation and everything else was done before we saw the dollars.

Conflicts of Interest

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38   We had to sign declarations of interest and declare any potential conflict that we had, particularly in the ITO process. I don't recall who asked us to sign these documents but believe it may have been co-ordinated by the Procurement unit.

39   I have not worked with IBM or Terry Burns before this process.

40   It was my understanding that there were a lot of external contractors in CorpTech and Shared Services Initiative Organisation (SSIO). They were not from one company in particular, but from a broad range of companies.

41   David Ekhert was my manager when I was in the Solution Design Authority (SDA). I don't recall there being a conflict of interest in relation to his involvement in the evaluation process of the ITO. My understanding was that he came from Information Professionals. He had been part of the SSS program for quite a while as a contractor, but I don't recall a conflict of interest.

Response to Media Claims

42   I understand there were claims made in the media concerning the ITO tender process. I don't know who the person was, but I just thought *"Bullshit. I don't know anything about it"*. My observation is that probity was maintained at all times in the RFP and the ITO process. We had to sign declarations of interest and declare any potential conflict that we had, particularly in the ITO process. The ITO process was held in locked rooms. We didn't have access to the information outside of hours. We didn't know what the dollar amounts were. We didn't see them until the end.

Implementation of Contract 5 December 2007

43   I was not engaged in negotiations with IBM. My understanding was that it was predominantly Terry Burns and Darrin Bond who negotiated with IBM. Darrin had been change of the SSS program so it was right for him to be involved in those negotiations.

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44   I am aware that legal advice was sought from Mallesons in relation to the 5 December 2007 contract and the contract was prepared by Mallesons. I can remember going to some workshops at Mallesons.

45   I was very impressed with the work that Mallesons had done on the contract. I was also impressed with the fact that Mallesons had been engaged to do that because that was the first time that I could recall that an external legal firm had been engaged to do a contract like that. I thought Mallesons added a lot of value and, in particular, I can recall there being some schedules in the contract in regards to the warranties with respect to the claims that IBM had made in the use of Workbrain as a solution accelerator.

46   Further, there was something in the contract about if the solution was proved unsuitable then the contractor had to fix it and there was also some performance guarantees in the contract. I thought Mallesons added a lot of value to that contract preparation process.

47   IBM started work in relation to the contract. As part of the early stages of the contract IBM did Statement of Work 7 to define the scope of the Queensland Health Implementation of Continuity (QHIC) project, that is the Queensland Health payroll. This was around December 2007 or January 2008. My understanding is we paid IBM approximately $600,000 to define the scope.

48   As part of the tender process IBM had proposed delivering an Employee Self-Service (ESS) and Manager Self-Service (MSS) solution. For me, this was an important piece of workflow technology and an important benefit of the project as it would enable employees to key in directly to automated payroll forms.

49   When the Scoping Document for QHIC from Statement of Work 7 was returned by IBM, the ESS / MSS solutions were dropped in that scoping exercise. Everyone seemed to miss this at the time, I had raised it and seem to recall being told that this was the decision that had been made. For me this was important from a benefits realisation perspective and I would estimate the technical effort to develop an ESS / MSS solution would be somewhere in the order to 20 – 25% of the $6.19 million IBM contracted solution.

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50   I am unaware of who made the decision to drop the ESS / MSS solution from the scope of the QHIC project.

Governance

51   CorpTech was the technology service provider and technology solution owner, not Queensland Health.

52   Queensland Health Enterprise Solutions Transition (QHEST) was an organisational structure established to manage the Enterprise Resource Planning system for Queensland Health. QHEST was also responsible for a number of projects other than the Queensland Health Payroll system.

53   The Queensland Health Implementation of Continuity (QHIC) project was a project which specifically focussed on the replacement of Lattice and ESP for Queensland Health. QHIC was one of the projects under QHEST.

My involvement QHEST and QHIC

54   On 30 June 2008 I was seconded to the Queensland Health Enterprise Solutions Transition (QHEST) program office from CorpTech SDA. I reported to Tony Price, Program Director.

55   I attended meetings, project steering committee meetings and project directorate meetings for QHEST Program Management Office and this included some QHIC meetings when I had first arrived in QHEST.

56   On one of my first days change requests 60 and 61 were brought to my attention. IBM had put together a change request because, supposedly, there had been a change in approach on how they do the HR finance integration.

57   The impact on costs for this change request was in the order of approximately 1.5 – 1.6 million dollars. However, this change request was warranted as they were changing back to what they said they were going to do in the first place and they had invested

some effort in an approach which had now changed. I helped to get that change request approved through CorpTech.

58   In their tender response, IBM had proposed to use the solution that had been built for the Deparment of Housing but use Workbrain for Rostering and Award Interpretation, in other words utilise stock standard SAP as much as possible. During the project it was becoming apparent that the solution was more heavily customised. This was raised in a later Project Management Review report by SAP around September 2009.

59   As part of my role on the evaluation panel, if IBM had told us that they were going to heavily customise their solution there was no way we would have gone for it because that has an impact on the benefits and the lifecycle of the investment. A highly customised solution is expensive and difficult to upgrade.

Queensland Health Response to Delay Notifications and Change Requests

60   Through Statement of Work 8 (SOW8) in early-mid 2008, IBM was doing a lot of work directly with Queensland Health and Terry Burns was overseeing that work in a Quality Assurance perspective within QHEST.

61   In mid 2008, the project was behind schedule and IBM were missing implementation dates that had been outlined in the tender response and in SOW8..

62   In August of 2008 IBM issued an official delay notification to CorpTech advising that there was going to be a delay in the implementation schedule. IBM cited reasons behind the delay. This took the form of a letter addressed to Barbara Perrott of CorpTech from Bill Doak of IBM dated 8 August 2008. **Annexure B** to this statement is a copy of that letter.

63   I assisted in the draft of a response letter to the delay notifications to CorpTech which was signed by Michael Kalimnios. I put a lot of effort into this letter which became the Queensland Health response to CorpTech. The letter refutes the reason IBM had given. The letter finishes with "*Given the issues cited above concerning IBM's performance to*

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date, the Queensland Health position is we have limited confidence in IBM's ability to deliver on the QHIC project." **Annexure C** to this statement is a copy of that letter.

64   It was my understanding that Barbara Perrott from CorpTech, on receipt of our letter, wrote to Bill Doak of IBM. The letter says that CorpTech has considered the reasons in your delay notification notice, we reject it and we're going to hold you to the original contract and time is of the essence. **Annexure D** to this statement is a copy of that letter.

65   I later became aware that CorpTech were seeking legal opinion from Mallesons at that time and had received advice that IBM were in breach of contract. This information was contained in the Mallesons Damages Options Paper confirming their earlier advice.

66   My impression was that as of August 2008 QHIC and QHEST didn't have confidence in IBM to deliver any more. IBM hadn't put in enough people. They didn't put the right skills on the project. The tender response had put forward a different IBM technical team in the evaluation process than the team tasked to do the job.

67   I went along to some of the meetings with IBM at IBM head office in August and September of 2008 to discuss the project and ways forward. I met with Bill Doak, and Chris Pebble and Paul Hickey who was a project manager during these and other meetings. At times my discussions with Chris Pebble became quite heated especially my earlier meetings as I asked Chris why they were not delivering on what they had promised and the approach that had been agreed especially with respect to HR/Finance integration which was to be based on the Housing standard SAP approach.

68   I recall hearing or being told by IBM representatives, although I do not recall who, on a number of occasions *"Do not tell us how to deliver this. This is a fixed price, guaranteed result. We will do it however we see fit. It is not up to the customer to tell us how to do it".*

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69   I was removed from the project at one stage around September to October of 2008. My understanding is that I was removed as I was pushing for things to be done in accordance with the contract.

70   I was advised by my manager, Tony Price, that IBM had prepared a list of people that they didn't want on the project and my name was on it. Apparently anyone who had put up any objection to what IBM were doing or raised any issues, their name was on that list.

71   I remained with the QHEST PMO so I was still involved in QHEST directorate meetings where project performance was discussed but I was no longer directly involved with the QHIC project. However, I was still asked by Tony Price to provide comment on project documents in my role as Portfolio Benefits manager across all of QHEST projects. QHIC was just one of our projects.

72   On 30 June 2009 change request 184 was issued. At this time I was preparing briefing notes and assisting my program director Tony Price who was a program director for QHEST, so the QHIC project came under his portfolio.

73   The original contract was for $6.9 million. Change request 184 was for $9 million, 1.5 times the value of the executed contract. The reasons give were the *"extension of time and changes to scope"*.

Briefing Note Authored 6 July 2009, Tabled 15 April 2010

74   I prepared a briefing note dated 6 July 2009 for the Minister that was signed by Tony Price on that same date. **Annexure E** to this statement is a copy of that briefing note.

75   In that briefing note, I outlined that the project was challenged and experiencing a lot of problems including:

　　　　a) IBM weren't following a recognised project management methodology;

　　　　b) Deadlines were being missed;

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    c) IBM had an insufficient number of appropriately skilled staff;

    d) the costs blow-outs;

    e) the quality of the solution build was not there as evidenced by:

        i. User Acceptance Testing (UAT) – a high number of defects were being detected at this stage;

        ii. The K.J.Ross Report had assessed the quality of the solution build.

76   The SAP Project Management review report of August – September 2009, as commissioned by CorpTech later stated that QHIC was a high risk project.

77   The briefing note also drew attention to the learnings from the Brisbane City Council payroll solution and noted that we would get a lot of adverse media attention if we didn't get this right.

78   My understanding is that the Minister did not see that briefing note. I know Tony Price signed it and it went up. I understand it was tabled on 15 April 2010.

End of Project Review

79   I authored a report called the End of Project Review in May 2010 after the go live. The review included information on the management of the contract, the delay notifications and the quality of the solution build. **Annexure F** to this statement is a copy of that report.

80   This review was provided to the Auditor-general following a review of the first draft of the Auditor-General's report which I considered was initially very unbalanced.

81   My observations were that:

    a) IBM should have done all the testing up front. Their own system and integration testing should have discovered and virtually eliminated nearly all of the errors.

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For us to have detected 1700 errors doing the UAT was an indication of something very, very seriously wrong;

b) CorpTech, as the technology solution provider, supported a decision to go live when there was approximately 50 severity-two defects outstanding. According to K.J. Ross 40 per cent of the system functionality hadn't been tested;

c) There was no single point of accountability with CorpTech as the owner of the technical solution;

d) There had been a failure to take action against IBM in regards to the contract management and terminate a troubled contract; and

e) A failure to look into the costs and benefits of Shared Services Initiative and continue to assess the viability of the business case.

82   My observations is that the appropriate frameworks in terms of the Prince2 project management methodology is in place within the Queensland Government but there isn't the necessary follow up and people aren't prepared to make difficult decisions concerning troubled projects

Declaration

This written statement by me dated ___8/3/13___ and contained in the pages numbered 1 to ___15___ is true and correct to the best of my knowledge and belief.

_____   Signature
Signed at _____Brisbane_____   this __8th__ day of __March__   20 _13_

Witnessed:

_____   Signature
Name _Catherine Louise_   Rank _Principal Lawyer_ Reg. No. _____
       McLennan

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**QUEENSLAND HEALTH PAYROLL SYSTEM
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Annexure List to Craig Vayo Statement

Items to be annexed to the statement of Craig Vayo dated 8 March 2013:

    A. Team Evaluation Report for the Benefits Team dated 19 October 2007.

    B. Letter from Bill Doak, IBM to Barbara Perrott dated 8 August 2008.

    C. Letter from Michael Kalimnios to Barbara Perrott dated 15 August 2008.

    D. Letters from Barbara Perrott to Bill Doak, IBM dated 2 September 2008 and 4 September 2008.

    E. Queensland Health Brief for Noting to Deputy Premier and Minister for Health regarding Interim Payroll Replacement – QHIC dated 6 July 2008.

    F. QHIC End of Project Review dated 7 May 2010.

Witness signature: _____   Craig Vayo: _____

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