



QUEENSLAND HEALTH PAYROLL SYSTEM
COMMISSION OF INQUIRY

Statement of Witness

<i>Name of Witness</i>	Malcolm Archibald Campbell
<i>Date of Birth</i>	
<i>Address and contact details</i>	Known to the Commission
<i>Occupation</i>	Project Manager
<i>Officer taking statement</i>	
<i>Date taken</i>	

I, Malcolm, Archibald Campbell, state:

Background

1. From about August 2005 I was engaged as the Implementation Lead, SAP Finance System Implementation in the Queensland Government by CorpTech, a unit within Queensland Treasury. I have a Bachelor of Business (Management & Economics) from the Queensland University of Technology, am a qualified Prince2 project management practitioner and hold qualifications in Unisys Team Method and PMBOK project management methodologies.
2. Prior to this engagement with the Queensland government, I was involved in consultation roles associated with procurement, contract and vendor management and project management for ICT systems throughout Australia, United Kingdom and the Asia Pacific regions. I undertook these roles as a Director of Hicom Consulting Pty Ltd, a company I established in 1997 and of which I am a Director. I am still undertaking some work through that company.
3. The initial role I performed in CorpTech was Implementation Lead, Finance Systems with the Shared Service Initiative. That role, as a Director, was to lead a team to implement common Finance systems for the whole of government.

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4. At that time, Mr Geoff Waite was the Executive Director of CorpTech, and Mr Darrin Bond was the Program Director. My role initially reported to Mr Adrian Esler (a contractor), and then following his departure to Ms Debra White, a Public Servant who transferred to CorpTech from Treasury
5. I finished in the role of Implementation Lead at about November 2007 during the process to appoint a Prime Contractor. At this stage, the Finance solution had been implemented into 11 agencies and 3 Shared Service providers. The Business Preparation stage had been completed in a number of other agencies.

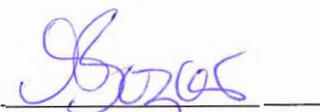
Invitation to Offer and other early events

6. Late in this period, I had involvement in the evaluation of an Invitation to Offer (ITO) for the engagement of a Prime Contractor for the implementation of Finance and HR systems for the Whole of Government. I had no part in the drafting of the ITO, and did not have access to or review the documents until after the ITO process had begun.
7. I was part of the Evaluation Panel for that ITO and was responsible for reviewing the proposed implementation methodology component and the tools that tenderers would use to implement the solution. Other teams were responsible for other components of the offers.
8. On completion of my role with the finance system implementation, I was engaged in the Program Office as the Director, Vendor Management (a role proposed by Mr Terry Burns in his review). The Program Manager was Mr John Beeston. I engaged Mr Chris Bird (a lawyer) as the Contract Manager and there were a number of Project Officers on my team. Mr Bird had practised in Hong Kong with a company called Linklaters and then in Australia where he undertook contract and vendor management within the construction industry. My opinion was very knowledgeable in the management of contracts.

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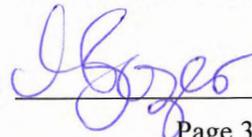
Drafting of IBM contract

9. I was on the original panel that was responsible for the drafting of the IBM contract. This government team consisted of Mr Terry Burns, Mr Keith Goddard, Mr Shaurin Shah, Mr John Beeston and others. Mr John Swinson for Mallesons, Stevens Jaques (MSJ) was the legal representative. IBM has a number of representatives for the contractual discussions.
10. My input into the final contract was limited to Schedule 26 which related to the Warranty provisions, and the structure of the Statements of Work templates. I provided examples from previous roles as an input into these schedules.
11. It was recommended (I am not sure by whom) that the contract negotiating team structure was too large and that it be reduced. Following this, I did not participate further in the contract negotiation proceedings. My view was that this was unusual as I was the appointed Vendor Manager and it was to be my team that managed the vendor and the contract. I thought that it was also unusual Mr Keith Goddard and Mr Shaurin Shah remained on the contract negotiating team.
12. Examples of my previous contract negotiating experience were with companies such as Telstra, Time Telekom in Malaysia, Keenan Systems Corporation of USA, Esprit and GTS in the UK, Unisys and Vietnam Telecommunications International in Vietnam. This experience was associated with the development of contracts for the supply, implementation and operation of ICT systems.
13. I recall that I made a recommendation through Mr John Beeston regarding the inclusion of the ITO and the IBM responses as appendices to the contract (as was my normal practice). My view was that the IBM response to the ITO should become part of the contract and should be enforceable within the terms of the contract. The advice I received (from Mr Beeston) was that this action had not been recommended. The exclusion of these documents caused problems with the management of the contract as the engagement progressed. In this, I refer in particular to Schedule 22A of the

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Customer Contract and the provision of adequate and appropriate IBM resources for the project.

14. I recall there was some pressure from Treasury for the contract to be finalised as soon as possible. My experience is that draft contracts are normally appended to the offer documents when they are being distributed to bidders. In this instance, there was no draft contract appended. Further, my experience has been that contracts of this nature require considerable negotiation time to ensure complete agreement by the parties of the contractual framework into which the parties are entering into.
15. I conceded it was highly unusual that Schedule 22 A was excluded from the signed contract. This was the schedule which detailed the governance of the Prime Contactor model. My understanding at the time was that without this agreed schedule, there was no Prime Contractor model, and there was no contractual provision to supply the resources identified by IBM in their response to the ITO. In effect, the IBM responses were to be regarded as sales material by IBM.
16. I recall that there were about six initial fixed price Statements of Work (**SOW**) and three Statements of Scope (**SOS**) under the Contract. The Statements of Work related to binding fixed price pieces of work, and the Statements of Scope represented the early estimate of work to be undertaken by IBM for other pieces of work. My recollection was that the SOS represented the original estimate of the scope, timeframe and cost of a number of work packages. Each SOS was converted into a **SOW** which was then incorporated into the Customer Contract by way of a variation supported by a Contract Control Document (**CCD**).
17. The original SOS pricing was allowed to be varied by 10% of the estimate when the SOS was converted to a SOW. Provision was made in the contract that if the variation exceeded 10%, IBM was to refer their pricing to an independent third party which would be engaged for an assurance role on pricing. This never happened.

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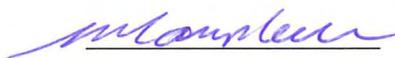


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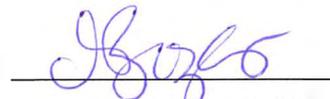


18. IBM was confident of their estimates. They proposed that within each SOW, a component of the total price (I recall 15%) be an "At Risk" payment. This At Risk payment was in place to ensure that if IBM was not able to deliver the agreed scope of work in the time agreed under the contract, that this At Risk payment would not be paid. The schedule to set the components of the At Risk payments was set aside to be determined at a later date from the contract signing.
19. A meeting was then held in early 2008 with representatives from IBM & CorpTech to determine how the At Risk payments were to be apportioned. I chaired the meeting. It was agreed by the parties that the following method would be used:
- 5% related to the deliverables being delivered on time in accordance with the milestones agreed in each SOW.
 - 5% related to the deliverables being accepted at the first review. This was a quality assurance matter.
 - 5% related to the relationship between the Customer and IBM as seen by the Under Treasurer.
20. While IBM never completed a SOW deliverable on time, pressure was brought on the CorpTech management (Ms Barbara Perrott) and others to make the At Risk payments. My view was this action from the senior management of CorpTech was weakening my ability to enforce the terms and conditions of the contract.
21. Statement of Work 2 was, I recall, establishing the IBM Program Office and the payment schedule for the operation of that office. I established a contract management framework for the management of the contract, and IBM agreed to that framework.
22. The IBM program was managed at that time by Mr Paul Hickey, and the IBM Program Manager was Mr Steve Flint, the Vendor Manager was Mr Keith Pullen. I dealt with Mr Flint and Mr Pullen on day to day vendor management issues. In the early phase, I enquired as to who was the commercial manager for the contract and was advised that there was no provision in the estimate for such a role. IBM then appointed a Contract Manager, a Mr Stuart Reed. Mr Reed and Mr Bird were involved in the technical

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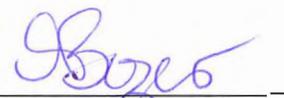
management of the contract. The advice from IBM (Mr Flint) at this stage was that normally the contract would be “put in the bottom draw”.

23. A number of Statements of Work were incorporated into the Customer Contract by way of variation supported by a change control document process. The CCD process was a process documented and agreed within the contract.
24. Statement of Work 5 was for IBM to build the core HR system, to build all of the government awards in the core SAP HR system, and to provide interfaces into the Finance systems. All the awards information had been provided to the bidders during the ITO process and the complexity of the awards, especially those in Queensland Health were known to the bidders. This SOW was worth a substantial amount. The IBM manager for this SOW was Mr Thomas Lambert. Mr Lambert negotiated with the Solution Design Authority (Mr Brett Mathews) to deliver “off the shelf components” instead of the deliverables agreed in the SOW. There was no contract variation for this action and this was brought to the attention of the SDA. The awards were never built in the SAP HR system. I am unsure as to what was built, how the deliverables (if any) were tested and what test the SDA conducted to accept the deliverables if they were not integrated into a system. The Solution Design Authority was responsible for the SOW content and to ensure contract milestones had been achieved. It was on the advice from the SDA that the payment for SOW 5 was paid.
25. Statement of Work 7 was executed to enable IBM to get started as quickly as possible with the LATTICE replacement within Queensland Health. The basis of the customer contract was that “time was of the essence”. IBM requested that it commence in Queensland Health as soon as possible, and that this workstream operate in parallel with other SOWs’ to get the team established and to begin to scope the work required for the LATTICE replacement. A deliverable of SOW 7 was for the fixed price for the LATTICE replacement in Queensland Health. SOW 7 was finished in December 2007. A Statement of Work 8A was agreed, which was an interim SOW to maintain continuity of the work of the project team. SOW 8 was for the design and implementation of the LATTICE replacement system.

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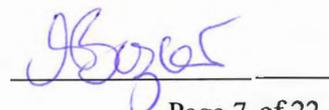


26. Statements of Work 7 and 8A involved IBM being in a position (and being paid) to learn more about what it was required to do to implement the LATTICE replacement system and to develop Statement of Work 8. The Project Manager for SOW 7, 8A and 8 was initially Mr Chris Prebble. Mr Prebble was a contractor engaged by IBM, not an IBM employee. My view was that Mr Prebble did not follow the IBM Ascendant Project Management methodology (no signed off scope document – integration testing while software still in development), nor did the Queensland Health project team (QHIC) ensure that IBM followed that methodology for example by ensuring scope documents were agreed before development work commenced. Mr Prebble was eventually replaced by Mr Bell and then Mr John Gower, a senior IBM manager.
27. My recollection is that IBM was, at the time it won the 2007 contract, already in Queensland Health doing work associated with a rostering system. That was **one** of the reasons why I thought IBM should be considered for the role of the Prime Contractor. IBM had had other involvement with the State's ICT system before this time. It was a party to a 2005 contract. This contract with IBM was for the supply and maintenance of WorkBrain, RecruitASP and SABA. It was in place well before the 2007 contract was signed.
28. As part of the evaluation process and before IBM was awarded the contract, I undertook research into IBM's Project Management methodology and its approach to projects. It was very similar to the Prince2 Methodology, but it was proprietary to IBM.
29. SOW 12 was to build the QH awards interpreter in Workbrain. I considered this odd, as I believed this should have been a deliverable of SOW 8. (Design and Build the LATTICE replacement system). The SDA negotiated with IBM for this SOW.
30. Around the time of drafting SOW 12, an observation made by the Vendor Management team was that there appeared to be very little Program Management being undertaken by IBM. The observation was that each SOW was being delivered in isolation. For example, it was apparent that the SOW 5 team did not communicate with either the

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SOW 8 or the SOW 12 teams. The Vendor Management team was particular in recording each SOW deliverable, when it was delivered, and when a payment was made for the deliverable. This tracking was in place for the management of the At Risk payments. IBM used this matrix as its tracking system but it was not as effective.

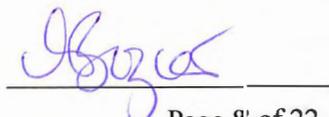
What went wrong

31. I have been asked what my views are about what went wrong with the Queensland Health Payroll System Contract.
32. *First*, as a Vendor Management team, we were not allowed to manage the Contract the way that we would normally do as per normal business practice. An example of this was the agreement to pay the At Risk payments even though the contract deliverables were not delivered in accordance with the agreed schedule. While the Vendor Management team would recommend that the At Risk payment be withheld, representations were made to Ms Perrott by IBM to have this decision reversed. I can recall a letter from Mr Hickey to Ms Perrott with a request to review the At Risk payments.
33. We were informed by various senior managers: Terry Burns, Tony Price (QHIC) and Nick Casachenko (Internal Audit) by an email that we should not be aggressive with managing the Contract.
34. My view was that my role as Vendor Manager was to protect the interests of the State and as both parties had agreed to the terms of the Contract, my role was to manage what both parties had agreed to.
35. My recollection is that Mr Burns was initially the Interim Program Delivery Director (PDD) at that time and my observation was that he provided advice to Ms Perrott on project matters. CorpTech decided to replace Mr Burns, and sought from the market a suitable candidate (as a public servant) for that role. I was informed by Ms Barbara Perrott in a discussion with her that the selection team, which included Mr Terry Burns,

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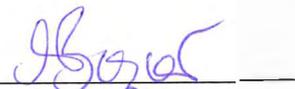
had selected Mr James Brown for this role and he was appointed on about June/July 2008 as the PDD. Mr Brown became my supervisor. Once Mr Brown was appointed, my recollection is that Mr Burns became an Advisor to the program. My recollection is that there was some friction between Mr Brown and Mr Burns and Mr Burns eventually left CorpTech to work with Queensland Health.

36. I can recall that at a team meeting I announced that Mr Brown had been appointed as the PDD. A member of my team, Mr Mark Jones, informed me that he had worked previously with Mr Brown on the implementation of the Brisbane City Council payroll system, a project Mr Brown was managing as the CIO of the Brisbane City Council.
37. So, in summary, actions that were undertaken by the vendor management team in relation to the performance of IBM in the delivery of milestones under the contract were often overturned by senior management in either CorpTech or other senior management in the Department of Public Works.
38. An example of this was SOW 13, which was a piece of work to identify the business requirements of DETA and to complete the various documents which would have been delivered as part of the Business Preparation stage of the project. My recollection is that there was no SOS for this work, so there was no apparent basis for the value assigned for each deliverable. This statement of work was negotiated by the SDA.
39. The deliverables provided by IBM for this SOW were templates, did not contain any detailed information, and had not been through any Quality Assurance procedures. IBM was paid fully for this work on the advice of senior management from CorpTech and DETA.
40. *Second*, IBM did not staff the program of work with the resources they proposed in their response to the ITO. I refer to paragraph 13 in this statement and the reference to Schedule 22 A. In addition, there was a high turnover of staff in IBM. Replacement of IBM project staff was often in breach of the contract as the contract contained the names of Specified Personnel, and their replacement could only be supported with a contract

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variation. For an example, Mr Prebble was replaced as the SOW & project manager by Mr Bell. Mr Bell was an IBM employee from USA, who was in Australia on a working holiday. The observation of the performance of Mr Bell was not complimentary, and he was replaced by Mr Gower.

41. Another example was the exit from the program of the initial solution architect of the IBM solution, Mr Paul Suprenaut. This role was not replaced.
42. *Thirdly*, my view was that the QHIC project team was not sufficiently experienced in managing projects of this kind, as they authorised IBM to continue without enforcing the project management gates. That is, they should have insisted that IBM follow the agreed Ascendant methodology, should have insisted that the project scope document be agreed prior to any build activities, should have been aware of the problems associated with performance and user acceptance testing and should not have allowed the project to progress as it did.
43. With the observation of the Program Management capability aside, I started to have concerns very early in the program (shortly after the appointment of Mr Brown) of the ability of IBM to deliver the program of work within the agreed time and cost, especially when IBM kept submitting contract variations for extensions of time. This concern came from my experience in the implementation of ICT systems and the management of vendors as previously stated.
44. I was originally an advisor to the QHIC Project Team. My role on the team was to represent to the team the conditions of contract, and to advise the project team of the customer obligations. Mr Gower discussed my role on the Project Team with Mr Brown, and I was subsequently removed from the QHIC Project Team meetings.
45. For example, I advised the QHIC Project Team of the performance issues relating to the solution during the Workbrain performance testing and Integration Testing. The solution kept failing the tests. Mr Gary Palmer, a technical specialist from CorpTech was concerned at the performance and paid particular attention to the results of the various

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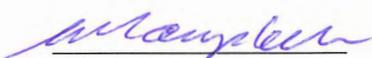
forms of testing. My recollection at the time was that he was concerned with the proposed solution.

46. Another example was when I attended a QHIC Project Team Meeting and posed the question "When is Queensland Health Audit going to be engaged to look at the interfaces between the Finance system and the HR system?" The response from IBM was that there was no provision for a Finance system interface for the interim LATTICE replacement system.
47. I indicated to the meeting that the payroll system does not operate as a stand alone system and that it has to be integrated with the Finance system. This seemed to be a surprise to some IBM staff at the meeting. During May or June 2008, a variation request was then generated (CCD No 60) which introduced, among other things, the finance system interface solution to the deliverables¹.
48. During this period, I had several conversations with Mr Damon Atzeni, a manager working in the Queensland Health payroll area. My recollection of his view was that IBM was proceeding to build the system without an agreed Project Scope document. So the customer (in this case Queensland Health Project Team) had not gone through the first project management gate² that is to agree on the Scope of what was going to be built. Mr Atzeni advised me that system build and testing was being conducted in parallel with the identification and finalisation of the business requirements. This was another example of a significant departure from methodology. Mr Atzeni and I were also concerned that IBM was unable to meet many of the business requirements for Queensland Health. This design problem should have been a concern to the Solution Design Authority and the QHIC Project Board, but it was not as the project kept progressing.
49. In the period September to December 2008, (having already engaged Mr Swinson from MSJ to give advice) the Vendor Management team were so concerned with IBM's

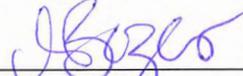
¹ Change Request number 60 was not reviewed by the Vendor management team prior to it being approved

² This refers to the Project Management methodology and its importance in project management

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ability to deliver in accordance with the contract milestones, a condition precedent was proposed in CCD 179 which proposed that if IBM could not meet certain conditions (agreed deliverables) then they needed to prove that they could actually implement the LATTICE replacement. IBM failed that objective test (in December) but the QHIC team recommended that IBM continue with the project. Mr Burns was providing a Quality Assurance role to QHIC at the time, and was assisted by Mr Shah. Following up on that failure would have been within the Quality Assurance role.

50. Around this time, I became more concerned with the management of the Vendor and the Contract. I could see that there were things happening within the project that meant that the State would be put at risk, namely:
- a. in testing, IBM provided software that had failed;
 - b. IBM was unable to meet milestone dates and continued to ask for extensions of time;
 - c. Delay notifications being issued for incorrect reasons – IBM blamed the customer for the delays;
 - d. IBM was not managing the project to the Ascendant Project Management methodology;
 - e. IBM was not able to produce an integrated Project Schedule, thus creating the concern that no proper planning was being undertaken;
 - f. IBM justified delays on past events;
 - g. There was a high turnover of IBM personnel. We believed that there was insufficient resourcing. Schedule 22 A of the customer Contract required IBM to have personnel such as an enterprise architect, but that schedule was never agreed and that position was never provided.
51. Members of the Program Office went to Ms Barbara Perrottt with all these concerns in August 2008. She advised us to engage Mr John Swinson from MSJ to work with us to see how we could best proceed within the terms of the Contract, and to protect the interests of the State.

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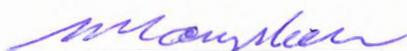
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52. At the initial meeting to discuss the problems with the performance of IBM, my recollection is that there was Mr John Swinson and Ms Kirsten Bowe from MSJ, Mr John Beeston, Mr Chris Bird and myself from CorpTech and Mr Terry Burns and probably Mr Tony Price from QHIC.
53. Following this meeting, Mr John Swinson produced a Memorandum of Legal Advice to Barbara Perrottt, highlighting all the issues listed above, and recommending some options that CorpTech could take. The first recommendation was to issue a Contract Breach Notice to IBM, and the advice was that if we did not issue a notice at that time, the customer's position may be much worse in the future.
54. The advice to CorpTech³ was to review the performance of IBM, determine if there were alternatives to IBM completing the project, issue the Material Breach, have a senior Government representative speak directly to IBM head office, determine whether to terminate the Contract, use the Material Breach to renegotiate the Contract with tighter provisions, and to seek compensation from IBM.
55. A draft contract breach notice was then commenced by Mr Chris Bird, Mr John Swinson and Ms Kirsten Bowe with Senior Counsel engaged by MSJ. I do not recall who Senior Counsel was.
56. In drafting the initial breach notice, the Program Office team wanted to make sure that if any legal action as far as the Contract was to take place, that the items we considered IBM had breached were relevant and that the State had a defensible position if it went through to formal legal proceedings.
57. I was on holidays during the time when issues relating to the condition precedent and documents relating to the breach conditions were drafted. My recollection is that on or about 24 December 2008 the draft letter from Ms Perrott to Mr Doak was finalised (drafted by Mr Bird and Mr Swinson) and presented to Mr James Brown for his review.

³ In the Memorandum of Legal Advice dated 25 August 2008

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This letter referred to IBM's failure to meet the condition precedence, and that IBM was in breach of the contract.

58. I recall Mr Brown saying the document was "volcanic" and that his view was that the Government did not wish to be engaged in a long legal battle with IBM. Both Mr Chris Bird and myself outlined to Mr Brown that a Contract Breach was a normal and powerful contract management tool. For example, IBM would have to notify shareholders and other companies they were engaged in a tendering process⁴, that a Breach Notice had been issued.
59. I recall that Mr Brown said the letter would not be issued to IBM. I cannot provide any information as to why Mr Brown took this action or if he sought advice from other parties on this matter. Mr Brown will be able to provide advice on this matter.
60. In January 2009, Mr John Beeston, the Director of the Program Office, prepared a Contract Management advice to the Director-General of the Department of Public Works on the current status of the project.
61. My understanding of the normal process is that the brief would be presented by Mr James Brown to the Director-General, Mr Mal Grierson, and would normally have referred in the first instance to the General Manager of CorpTech (Ms Margaret Berenyi) and in the second instance to the Associate Director-General Ms Natalie McDonald. My involvement in the process stopped with Mr Beeston.
62. In that brief the Director-General was advised that IBM be formally notified that it was in Material Breach of the terms of the Customer Contract and that if the Breach was not issued, then IBM would argue that a delay in the project was acceptable to the customer and that time was no longer of the essence.

⁴ At this time, IBM were engaged in a tendering response for the Gold Coast City Council

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63. I do not know if the briefing note was presented to the Director General. Mr Brown will be able to provide advice on the progress of that advice, and the actions taken as a result of the Briefing Note.
64. On 14 January 2009, I arranged a meeting with Mr Boyd Backhouse, Legal Counsel for Department of Public Works, Mr Chris Bird and Mr John Swinson. Mr Backhouse advised in a Legal Brief (with privilege) to CorpTech to notify IBM of its breaches in order to preserve the State's contractual position. MSJ were then engaged to finalise the Breach Notice with the Vendor Management Team in parallel with negotiations being conducted by senior executives of DPW.
65. The draft notice and accompanying briefing note were finalised in March 2009, but I recall Mr Brown saying that there "was too much water under the bridge for that to be enacted". He instructed that all legal avenues with MSJ cease.
66. My recollection is that Senior executives of Queensland Health agreed to sign a variation that paid IBM another \$5million which basically reduced the scope of Queensland Health's business requirements and that was done to produce a Go-Live of September 2009. (I cannot recall the CCD number for this action).
67. In March 2009, much of the work in the Breach Notice and accompanying briefings had been completed. There was a draft Breach Notice document with a 15 page briefing note ready to go. This Breach Notice and accompanying Briefing Note was not issued as per instructions from Mr Brown.
68. During April, Mr Brown was advised by email from Mr Bird about issues relating to the draft beach notice. This email also re-presented to Mr Brown the briefing note and draft breach notice that had been drafted by Mr Bird with assistance from MSJ. I cannot provide any information on what actions were taken as a result of that email.

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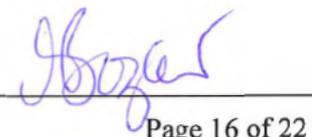


69. In May 2009 I was asked by Mr Brown to provide a brief to the Associate Director-General, Ms Natalie MacDonald, and the brief was to provide advice on why IBM kept extending the Go-Live of the payroll system.
70. In the Briefing Note, I advised the Associate Director-General of the reasons for the delay and I advised the ADG that the customer had taken a soft contract management approach and the At Risk payments for poor performance were always paid. I advised her that the actions of the customer had ensured that the risk now was with the customer as the State had agreed to the cost of the delays.
71. During these proceedings, another supplier to CorpTech [REDACTED] had a contract to review the business requirements and to finalise the scope for the Finance System implementation in Department of Community Safety. [REDACTED]'s Project Manager at the time, Mr Keith Goddard had failed to deliver one milestone in the agreed time. [REDACTED] did not follow the extension of time process and were in material breach of the contract. On instructions from Mr Brown, I initiated actions to terminate that [REDACTED] contract. This action was undertaken in conjunction with DPW Legal Services and Crown Law. These actions were twofold. Firstly, to terminate the contract as the supplier was in material breach, and secondly, to understand the actions that would need to be followed in the event of escalating issues with the IBM contract.
72. While Mr Brown authorised the contract termination with [REDACTED] for one late contract milestone, there was no authorisation from him to take similar actions with IBM which was consistently late with contract milestones.
73. My view is that if the State had proceeded with the Breach Notice at the time advised by both Mr Swinson and Mr Backhouse, the work in Queensland Health would have paused and the contract terms and conditions could have been reviewed. My view is that if these actions had occurred, the deliverables of SOW 8 would have been different, and the payroll system outcome would not have the errors that it did at Go Live. In essence, it would have given the customer and IBM the opportunity to review the contract and to ensure the outcomes were managed.

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74. Around this time, IBM delivered the outcomes of SOW 2 which related to Forward Planning, and the estimate for the remaining work that was required for the completion of the implementation of the WoG initiative – that is, what they had originally responded to in the ITO and for which they were awarded the contract. The fixed price was far in excess of what had been estimated by IBM in the response to the ITO. I cannot recall the exact price.
75. Mr Brown requested from me some advice on the options the State had in relation to the contract continuing with IBM. I referred this to Mr Beeston and provided advice by way of three options. One option was to ensure IBM completed only the Queensland Health LATTICE replacement project and all other SOWs not be agreed. This action would mean that IBM still was obliged to complete SOW 8, but as no new SOWs would be issued, the existing contract would be preserved, and no extra money would be paid to IBM.
76. This advice was presented to the Director General, and IBM was advised of the decision.

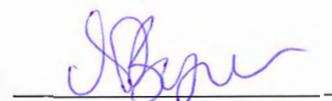
User Acceptance Testing and Severity of Defects

77. In July 2009, Phase 1 of User Acceptance Testing (UAT) was underway. This testing produced large amount of Severity Two errors. On reading the KJ Ross user acceptance testing report it is not hard to understand that Go Live with the number of Severity 2 errors would be problematic. The definition of Severity 1 to 4 errors is contained in Schedule 26 of the contract. These levels would also have been agreed in project documents which outlined the entry and exit criteria for UAT.
78. The large amount of Severity 2 errors continued in Phase 2 and Phase 3 of UAT. The Test Managers report will provide information on this. My observation was that as a defect was rectified, another defect would become evident.

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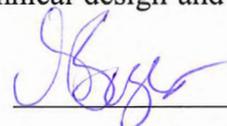


79. During UAT, IBM's position was that each defect identified during testing was in fact a new business requirement. That stemmed from the fact the Scope Document had never been agreed and signed. In effect, the business requirements were never agreed by the vendor and the customer.
80. Under a Project Management methodology, business requirements are identified during the Business Preparation stage of the project. Stage 2 does not normally proceed until all the agreed deliverables of Stage 1 have been delivered and accepted. If the customer has missed something during the Business Preparation stage, and during UAT they identify that they need it in the future, then this is a valid reason for a contract change or variation.
81. A normal Business Preparation stage for a project as complex as QH payroll would normally take between 12 and 16 weeks, not a month. During the Preparation stage, it is normal for the vendor to conduct a series of workshops with the customer to identify all of the business processes that are involved and all the particular processing points which are impacted by the system. Mr Atzeni did advise me that no workshops of this nature had been conducted.
82. In Queensland Health, the award provisions within that organisation are very complex. In the first instance, my understanding was that the awards were to be constructed in SOW 5, and my recollection is that the rostering solution and awards interpreter were to be built in WorkBrain (SOW 12). My limited technical opinion, drawing on previous system implementations, was that there seemed to be a fundamental design error in the interface design between SAP and WorkBrain which caused a majority of the problems in UAT, and later in operation.
83. During UAT, to progress the items addressed in paragraphs 80 & 81, I organised a meeting with Mr Gower, Mr Paul Ray (who replaced M Reed) and Mr Bird to begin discussions on the identification of defects and the way defects were to be managed. In a normal project, there is a tracking methodology to ensure that an agreed business requirement has a description, has a functional design, a technical design and a test for

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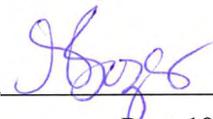
that requirement. This tracking methodology is usually called a Requirements Traceability Matrix. Mr Gower stated that for SOW 8, there was no such matrix. I questioned Mr Gower as to how IBM could identify defects that were agreed business processes and defects which were new requirements if no such tracing matrix existed. My understanding is that this action led to the variation CCD 183 and 184, in which IBM tried to descope the deliverables and to transfer the risk for IBM to the customer.

84. As a result of the actions identified earlier in this statement (Par 79) I was requested by Mr James Brown to prepare a paper on the Principles to be considered in resolving defects and existing business requirements. I engaged Mr Damon Atzeni to assist in identifying current business processes which were deemed by IBM to be new requirements. I produced a paper which made certain recommendations and nominated an escalation path to the Senior Management Team to provide a resolution for defects which could not be agreed at the project level.
85. I have asked about Change Request 60. It relates in part to the interface design and functional specification being seriously behind schedule. This variation was prepared by IBM and presented to Ms Perrott for approval without going through the agreed process where the Vendor Management would review the variation prior to it being presented to Ms Perrott for approval. The normal procedure would be that Mr Beeston or I would present the reviewed CCDs to Ms Perrott and to provide to her an overview of what the variation entailed. This was to provide Ms Perrott a level of comfort prior to her signing that CCD.
86. My opinion is that if IBM had followed the Ascendant Methodology, they would have identified during the Business Blueprint Phase the interfaces requirements for the Finance system during SOW 7, and that the Queensland Health finance system at the time was an older version of SAP, and the limitations of that system. It should be noted that IBM proposed that it would identify and fix problems that existed in the pilot system that had been implemented into the Department of Housing by CorpTech, and that IBM would use this system as the basis for the LATTICE replacement payroll solution. This pilot HR system interfaced to the Department of Housing's SAP Finance

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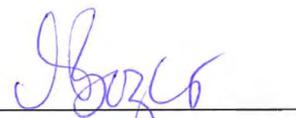
system, which was not the same version as the Queensland Health system.

87. In projects that I have been associated with, it is normal to undertake two phases of UAT, problems are identified and rectified during the first phase and the second phase is to confirm that all the errors have been fixed. In this case, there were four phases of user acceptance testing and during each phase; a large number of severity 2 errors were still being identified. My view is that any customer would, in these circumstances question the stability of the system being provided and would not consider a migration to production.
88. As an example, a similar incidence occurred with a vendor which was delivering a finance system for Global Telecommunications Services in the United Kingdom. As the Project Manager, I advised the business that the system could not be delivered in the timeframes agreed, and that the customer should cancel the contract as the costs for that project were increasing at an abnormal rate. I took legal advice prior to providing this advice. This experience formed the basis for my actions during the QHIC project.
89. My understanding is that the IBM Project Director (Mr Gower) approached CorpTech (Mr Brown) to discuss an approach to reclassify some of the Severity 2 to Severity 3A. The result of this action would mean that all the problematic defects that were currently Severity 2 then be reclassified as a severity 3A. This would then allow the system to meet the agreed requirement for a Go-Live decision (according to the terms of the contract). Mr Brown advised in the minutes of a Program Board meeting that the defects had been reclassified.
90. I can offer no information as to why a large number of Severity 2 errors which had been present for three rounds of UAT, and would have prevented the system from going live (refer to the UAT Exit Criteria), would be considered as less severe during Phase 4 of UAT. I have no information as to what constituted a Severity 3A error, what actions and timeframes the vendor would need to rectify the error, or how a Severity 3A error was to be retested and by whom.

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91. The Contract had no provision for a severity 3A defects and there was no variation to incorporate this new defect into the Contract.

92. I provided advice to Mr Brown that there needed to be variation so that there was a clear indication of who the proposer and the reason for the variation. My recollection of his advice to me on this matter was not to micro-manage the contract.

93. My understanding is that Mr Brown, as the Program Delivery Director and all members of the Program Board, would have been aware of the number of Severity 2 errors and the possible complications such errors would have in operation, agreed to the recommendation for the reclassification of Severity 3A.

94. I can recall providing advice to Mr Philip Hood of the error issues. I can recall saying to him that, as the Executive Director responsible for the operation of the system post Go Live, that he will inherit the problems in operation, and that his team did not have the resources required to operate the system, nor the skills to correct and retest the errors. I cannot recall what his actions were to this advice.

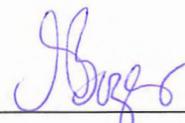
95. For the eventual Go Live, Terry Burns presented a risk analysis to the Program Board which was not as pessimistic as the KJ Ross reports but warned of some material risk. This risk analysis recommended the Go Live. I have no recollection of any information provided to the Program Board on the Severity 3A errors and what Queensland Health and CorpTech would need to have in place to operate the system, or the impact on payroll operations of these errors.

96. The Go-Live was proposed by Mr Adrian Shea, on 1 February 2010 and signed off by the Program Board. Each member of the Project Board and the Program Board would have been aware of the problems associated with the system during all phases of testing, the change in Severity classification of the defects. My opinion is that they approved a Go-Live knowing that all the defects had been transferred to be dealt with after Go-Live.

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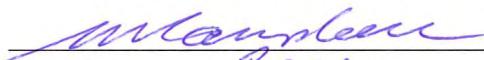
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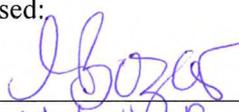


97. Following the Go Live, the Queensland Auditor General conducted a review of the project to identify what the issues were that had produced such a result, and to produce a report for the Minister. At the instructions of Mr Brown, no member of the Vendor Management Office was interviewed for this report.
98. I left CorpTech during May 2010 and have no information as to the activities that followed that date.
99. I voluntarily make this statement to the Commission of Inquiry. The contents of this statement are true and correct to the best of my knowledge. I acknowledge that any false or misleading statement could be an offence against the *Commissions of Inquiry Act 1950* (Qld) or contempt of the Commission.

Declaration

This written statement by me dated 12th April 2013 and contained in the pages numbered 1 to 22 is true and correct to the best of my knowledge and belief.

 Signature
Signed at BRISBANE this 12th day of APRIL 20 13

Witnessed:
 Signature
Name Michelle Bozier