



**QUEENSLAND HEALTH PAYROLL SYSTEM
COMMISSION OF INQUIRY**

Statement of Witness

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<i>Officer taking statement</i>	Jonathan Horton
<i>Date taken</i>	

I, **Margaret Berenyi**, state;

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1. Background

- I was the Executive Director (subsequently retitled General Manager) of CorpTech from 6 February 2009 until August 2011. I was appointed to the role by Malcolm Grierson, the Director-General of the Department of Public Works (*DPW*). I took over the role of Executive Director of CorpTech from Barbara Perrott.
- CorpTech was a specialised business unit established in 2003 to provide specialist information and communication technology (*ICT*) support for a range of Queensland Government agencies. From July 2008 CorpTech was hosted by the DPW. Prior to that, it was with the Department of Treasury.
- I have been a Senior Executive within the Queensland Government for over 30 years. I started in information technology as a programmer. My first executive role was managing an information technology group in the Valuer-General's Department (1986 – 1990). I then moved on to broader executive management roles including land titles administration, surveying and mapping, and natural resource management, all of which had underlying technology elements. Prior to my engagement as the Executive Director of CorpTech, I was

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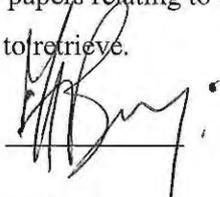
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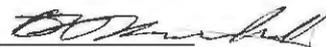
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- the Assistant Director-General, Corporate Services at the Department of Natural Resources and Water (2006 – 2009).
5. I am currently the General Manager of Queensland Shared Services at the Department of Science, Information Technology Innovation and the Arts. I have held this position for 1 year and 8 months. Queensland Shared Services was a merging of the previous CorpTech and the Shared Service Agency and was established from 1 July 2011.
 6. At the time of my commencement at CorpTech on 6 February 2009, CorpTech's responsibilities encompassed the management and delivery of application and technology services underpinning the finance and HR/payroll transactional service delivery provided by the three Shared Service Providers (Shared Service Agency (*SSA*), Department of Education and Training (*DETA*) and Queensland Health (*QH*)). CorpTech was responsible for the processing of the fortnightly pays for over 200,000 public servants. CorpTech also provided specific technology and application services for a number of government agencies.
 7. At the time of my appointment to CorpTech, QH represented approximately one third of CorpTech's HR/payroll business, DETA represented one third, and the rest of government departments represented one third. A multi-systems environment existed for HR/Payroll that included SAP, LATTICE and Aurion software. There were, at the time, various versions of these software packages in use which resulted in a complex applications support service environment.
 8. The timeframe of activities under review by the Commission of Inquiry, in which I was involved, fall between February 2009 and December 2010. I have a fairly good recollection generally of the events which occurred during that period, which has been aided by my review of the contemporaneous documents which I have been able to retrieve. I have, however, experienced difficulty in retrieving a great deal of relevant material from this period.
 9. CorpTech moved technology networks in November 2010, which has presented significant issues in gaining access to electronic documentation. In particular I have been unable to gain access to my electronic diaries for the period, which is significant as they would have greatly assisted my recollection of some of the finer detail of meetings, and dates of and parties to conversations. The relevant papers which were electronically attached to the diary entries are also unable to be retrieved, although some of those papers have been retrieved from other sources. Further, I have moved office several times during the period in question and many hard copy papers relating to this period were moved by my office staff, not all of which I have been able to retrieve.

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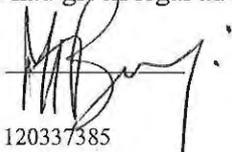
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10. My financial delegations during the relevant period were limited to \$250,000 from February to June 2009 and \$500,000 from June 2009 onwards. My contract execution delegation was up to \$10 million for the entire period.
11. During the relevant period, my direct supervisor for the period February 2009 to May 2009 was Mr Grierson, and from May 2009, Associate Director-General (*ADG*) DPW, Natalie McDonald.
2. **My understanding of the Project at Commencement of my Role at CorpTech**
12. All expenditure under the Contract was authorised under the Executive Council Minute (ECM) number 1136 dated 22 November 2007 (**Annexure 1**) which was for the expenditure of \$106,590,000 (inclusive of GST) in the form of payments to be made to IBM for services in relation to the prime contractor for the first phase of the Shared Services Solutions initiative.
13. One of the responsibilities I stepped into when I arrived at CorpTech was to manage the contract relating to the implementation of the QH LATTICE replacement project, also known as the QH Integration Continuity Project or QHIC Project (the *Project*).
14. When I commenced with CorpTech, I was given an overview by Ms Perrott of the status of the Project at that time and where it stood in terms of the management of the GITC Customer Contract with IBM dated 5 December 2007 including the associated statements of work (*Contract*)(**Commission Contract Management Bundle (CCMB) 1**). She had a briefing folder which she went through with me which contained documents relating to the establishment of the Contract, some of the challenges and issues which had arisen to date, and briefing material both in relation to management of the Contract and the Project, and the relationships between CorpTech and IBM on the one hand and IBM and QH on the other hand.
15. I also had numerous discussions with other key staff on the CorpTech contracts team (*Contracts Team*). Within CorpTech, the Strategic Program Office had responsibility for managing the Contract, led by John Beeston (Director Strategic Program Office) with Malcolm Campbell (Director Program Management) and Chris Bird (Contract Manager, Vendor Management) as the primary staff members undertaking these tasks. Mr Beeston reported through to James Brown (Executive Director Strategy and Planning). Mr Brown had accountabilities for the management of the Contract. These officers made up the CorpTech Contracts Team and between them, had detailed knowledge of the Contract, the decisions and directions which had been made in relation to it and the relationships with the external law firms who had given legal advice in respect of it prior to my appointment. They were the

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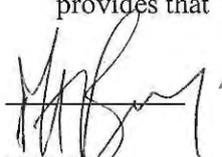
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- CorpTech team responsible for the day-to-day management of the Contract, under my supervision. They were competent, knowledgeable and responsible and I relied heavily on them in carrying out my obligations in managing the Contract.
16. I was also given a number of briefings by Mr Grierson, who informed me to the effect that Robyn Turbitt (who was at the time the ADG, Corporate Services at DPW) had undertaken a due diligence for him when CorpTech moved from the Department of Treasury to DPW in July 2008, which included all of CorpTech's then projects including the Project. Mr Grierson told me that the Project was of particular concern because of its importance to QH and the State Government and that there were difficulties with the Contract, which had been characterised by continuous change requests which had required additional payments to be made to IBM. He told me to the effect that IBM were hurting financially by reason of the Contract, that the Contract, as struck, had challenges, and that he wanted to put a floor under the numerous change requests which had characterised the Project to date. He indicated that I needed to take action to get the Project delivered.
17. I also had discussions with and briefings from many other relevant government officers, including Robyn Turbitt, Phillip Hood (Program Director, Service Management at CorpTech responsible for the LATTICE system) Michael Kalimnios (Deputy Director-General Corporate Services QH) and Adrian Shea (Executive Director, QH). Both Mr Kalimnios and Mr Shea indicated to me that they were aware that the Contract as struck presented a number of difficulties for CorpTech and QH.
18. I reviewed a Director-General Briefing Note covering negotiations with IBM for the proposed LATTICE replacement solution prepared by Mr Beeston and Ms Perrott dated 23 January 2009 (CCMB 182), an undated Director-General Briefing note with a file date of 13 January 2009 (CCMB 174) which overviewed the current status of the Project, together with numerous other documents and Executive Steering Committee minutes of 29 January 2009 (CCMB 187) which indicated that IBM's role was to be limited to the delivery of the QH LATTICE Interim Solution only and that there may be consideration of further engagement after this work had been completed.
19. I reviewed the Contract and held subsequent discussions with the Contract Team and formed the view that a number of elements of the contract were problematic for CorpTech, in particular:
- a. Part 5 'Miscellaneous Provisions', Clause 5.10 'Reliance on Documents' provides that 'the parties are not relying on any information or document unless

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set out or explicitly incorporated into the Customer Contract, or referenced in Schedule 47';

- b. Part 6 'Acceptance Procedure', Clause 6.1 'Documents Requiring Acceptance', Sub-clause (c) provides that 'within five business days of receipt of the deliverable, the SSRO primary contact will either approve the deliverable or provide the Contractor primary contact with a written list of defects and issues. If no notification is received in that period, acceptance is automatically provided, unless otherwise agreed.'

20. As a result of these briefings, discussions and the documents I read, my understanding of where the Project stood shortly after I commenced included the following:

- a. IBM was engaged as Contractor to the State under the Contract to direct, manage and control defined work packages with the aim of implementing a whole-of-government standardised finance and HR solution (the Shared Service Solutions Program (*SSSP*));
- b. CorpTech had primary responsibility during the Project to manage the Contract on behalf of the State of Queensland;
- c. a decision had been made in about January 2009, prior to my appointment, which redefined the scope of IBM's obligations under the Contract such that it would be responsible for the delivery of the QH LATTICE replacement Interim Solution only, with consideration of further engagement after that work had been completed;
- d. the Contract obliged IBM to perform the work specified in it and, relevantly, three statements of work (*SoW*) for the Project; namely:
 - i. SoW7 'LATTICE Interim Solution Scoping and Planning' (**CCMB 2**);
 - ii. SoW8A 'LATTICE Replacement Design Implement and Deploy – from 2 January 2008 to 18 January 2008' (**CCMB 19**);
 - iii. SoW8 'LATTICE Replacement Design, Implement and Deploy' Version 2.0 (Updated 13 March 2009) (**Annexure 2**);
- e. prior to my appointment, the go-live date had been extended a number of times from the original proposed date of July 2008;
- f. the original price for the Project had increased from \$6,194,933 to \$10,148,123, taking into account the 27 change requests which had been approved before I arrived;

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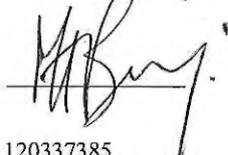
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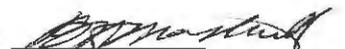
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- g. three rounds of User Acceptance Testing (*UAT*) had taken place prior to my arrival. These tests had revealed that a number of significant and essential business requirements had been omitted from the build of the SAP/Workbrain systems (the *Solution*) to that point in time. The development of the business user requirements was a joint accountability of QH and IBM;
- h. the business user requirements specification, which had been approved by QH contained high-level definitions, which meant that insufficient details of the awards, allowances and their interpretations as applied by payroll staff in calculating a pay, were included in the Contract and as a result there had been ongoing disputes about whether certain defects were core requirements of the Contract and should therefore be fixed by IBM at no cost, or whether they were new 'out of scope' requirements which required additional payments to IBM to get them resolved;
- i. CorpTech had concerns with IBM's performance to date, in particular in relation to IBM's delays in delivering under the Contract and in deploying the Solution, and inconsistent quality of its deliverables, a weakness of its Program Delivery Office in developing and enforcing standards for methodology, quality, reporting and management and co-ordination of streams, a focus on its internal financial needs at the expense of timely or quality deliverables, that the team which IBM had deployed to the Project was capable of carrying out its obligations, its failure to provide a system which met QH's business requirements and its continuing to classify issues as being 'out of the scope of the Contract' as opposed to defects which should be remedied by IBM at no additional cost;
- j. it was clear that many of those in QH and CorpTech who had been on the Project from the start were cynical of IBM's motives in its dispute of scope;
- k. an IBM proposal in August 2008 for further delay of the go-live date to June 2009 had been accepted by CorpTech without variation to costs, but there was a condition precedent requiring IBM to demonstrate by 30 November 2008 its achievement of the test criteria, upon which a change request (*CR129*) (*CCMB 131*) would become effective. Failure to meet this condition precedent would void CR129 in its entirety, which included a revised schedule, payment milestones, etc;

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- l. CR129 was executed on 11 November 2008 giving IBM until 30 November 2008 to demonstrate its achievement of 2 objective test criteria, upon which CR129 would become effective;
- m. IBM failed to meet the condition precedent in CR129 and sought three separate further extensions to meet it, the last expiring on 23 December 2008. This date was also not met and CorpTech advised IBM by letter dated 24 December 2008 (**CCMB 164**) that CR129 would not come into effect and the go-live date would remain at 18 November 2008;
- n. CorpTech and IBM then entered into further 'without prejudice' negotiations to consider the best way forward, during which IBM had advised, at about the end of December 2008, that an issue with IBM's HR Finance Integration Solution may result in a further delay of 10 to 12 weeks, although further analysis was needed to verify the issue and the schedule impacts;
- o. in about late December 2008/early January 2009, QH agreed to review its existing business processes, to determine whether, with some process adjustments, it was practical to operate with IBM's then built HR finance integration solution and thus preserve QH's desired go-live date of the first pay day in the 2009-2010 financial year and QH and IBM agreed that certain other functionality be deferred from the scope of the initial system build, resulting in the need for QH to undertake 35 manual workarounds, the development of which would be required from IBM post go-live;
- p. by 'without prejudice' letter dated 21 January 2009 to Bill Doak of IBM (**CCMB 178**), CorpTech sought IBM's proposals as to how IBM would complete its obligations under the Contract and required a response on or before 28 January 2009;
- q. the documents relating to the Government's tender request and IBM's response to it had not been included as part of the Contract documentation and this presented difficulties for CorpTech and QH in refuting IBM's claims to 'out of scope' work;
- r. according to legal advice received CorpTech had, prior to my appointment engaged in conduct (including silence) which arguably amounted to acceptance of IBM's unsatisfactory conduct and Project deliverables in a number of respects;

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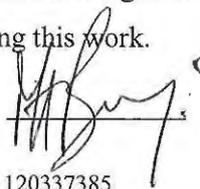
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- s. even though it was part of IBM's contractual obligations to scope QH's existing requirements to ensure the new solution was compatible and had at least equivalent functionality to the legacy system, it would be difficult to sheet liability home to IBM for the failings in the Contract or for IBM's previous unsatisfactory performance;
- t. the Contracts Team had carefully examined the Contract and had taken internal and external legal advice from John Swinson at Mallesons Stephen Jaques which was to the effect that it was very difficult for CorpTech to argue that unspecified work items were within the scope of the Contract or to succeed in arguing that IBM was otherwise in breach of the Contract and that a commercial negotiated resolution going forward was recommended;
- u. the matters in (h) and (p) to (t) above were the principal reasons why the numerous change requests had been authorised prior to my appointment;
- v. going forward, there were likely to be many costly and time-consuming disputes about what work was within the scope of the Contract; and
- w. at the time CorpTech wrote the letter dated 21 January 2009 to IBM referred to in 20(p) above, CorpTech was willing to consider a significant variation to the Contract as it stood at that time.

3. The CorpTech Contracts Team

- 21. It was not part of my role as the new Executive Director of CorpTech to re-do any of the detailed Contract examinations which had taken place by the Contracts Team or to personally review the legal advice which had been given in relation to CorpTech's position in relation to the Contract or the decisions which had been made in relation to it prior to my arrival. I relied on the Contracts Team to handle the details and to report to me in a timely, succinct and focussed way as to the gist of the legal advice received, which, to the best of my knowledge, they did.
- 22. I quickly gained an appreciation for the extensive knowledge that Mr J Brown, Mr Campbell, Mr Beeston and Mr Bird had of the Contract and about contracts management and negotiation more generally.
- 23. I have an extremely high regard for the depth of knowledge, experience and strategic insight that Mr J Brown provided not only in relation to contract management but also around the Shared Systems Program of work which CorpTech had to re-initiate when IBM was no longer undertaking this work.

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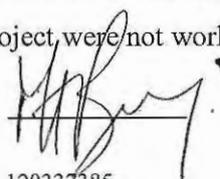
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24. Mr J Brown was an experienced executive who had been involved in significant reform and a major and complex implementation of SAP in the New South Wales Department of Education which involved very complex contract management. He had held Chief Information Officer roles in the banking, local government and State government sectors.
25. The advice provided to me by the Contracts Team was timely, well-presented and appropriate for the decisions at hand. The paperwork which originated from Mr Beeston's area was well-prepared and presented. I had confidence that the Contracts Team understood the requirements of not only contracts management but also government procurement and financial requirements and this was evident in the material presented to me.
26. I recall having meetings with Mr J Brown and with Mr Beeston around Contract management, discussing the pros and cons and settling on approaches which were then progressed by the Contracts Team. I had less direct engagement with Mr Campbell and Mr Bird in the early few months of my appointment, as they were more junior, but this increased over time as they took on more senior roles as a result of staff changes.
27. The Contracts Team would always review any documentation from IBM and provide me with their recommendations, together with a succinct summary of all legal advice received. Whenever I had meetings with IBM, I was mindful to have Mr J Brown or another of the Contract Team members at all meetings.
28. Mr J Brown joined me in many discussions with Ms MacDonald on issues relevant to the management of the Contract and the Project and on issues being experienced. When we were providing significant advice, Ms MacDonald would involve Mr J Brown and I in discussions with Mr Grierson. Boyd Backhouse (DPW Senior Legal Officer) would also attend if there were significant Contract issues involved and Ms Turbitt if there were significant financial issues involved.
29. The Contracts Team coordinated the development and approval processes for all change requests and Contract matters. They were involved in the negotiations with IBM on the details of the change requests. They had a detailed understanding of the Contract and provided advice to me on all IBM proposals that could lead to a change request in terms of the implications for the terms and conditions of the Contract (including any previously-approved change requests).

4. Project Governance

30. When I commenced with CorpTech, I soon formed the view that the governance arrangements for the Project were not working effectively and, given the change in IBM scope to a sole

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- focus on the QH project, that the Executive Steering Committee (*ESC*) was no longer the appropriate forum to provide management oversight of the Project.
31. As prime contractor, IBM was responsible for implementing a project management methodology and providing a program management office function. It was part of the 'toolkit' IBM brought to the Project.
32. I formed the view that the QHIC Implementation Steering Committee, which was the pinnacle governance body for the Project established by QH from February 2008 to oversee the Project, did not have appropriate representation. Membership of that committee was comprised of representatives from Queensland Health Enterprise Solutions Transition (*QHEST*) (a business unit in QH), Queensland Health Shared Services Provider (*QHSSP*), Solution Design Authority, QH Human Resources & Finance, IBM and the then-QHIC Project Manager, Ron Fawcett. It did not conform to the Government's project management methodology, which requires that the Project Executive, the Senior User and the Senior Supplier should sit on the board. When I arrived at CorpTech, neither Mr Kalimnios nor Mr Doak were on the board and CorpTech did not have executive representation.
33. Given the importance of the Contract management role, I saw it as critical that CorpTech participate on the governance board to ensure that CorpTech understood the intentions of the parties for Contract management purposes and contributed to the discussions as the Contract manager and eventual system owner and support provider.
34. I viewed it as essential that the key accountable officers (Mr Kalimnios, Mr Doak and I) participate on the project governance board. Each accountable officer in their line accountabilities had the capacity to make decisions in line with their organisation's human resources and financial delegations and therefore was in the best position to escalate matters where higher level approvals were needed.
35. After discussions with QH and IBM, the new QHIC board was established in April 2009 (*Board*) and the formalisation of the revised governance arrangements was ultimately included in CR184 (*Annexure 3*).
36. The new Board structure was in accordance with the Queensland Government Methodologies Project Management Methodology 2009 (*QGMPMM*) Release 3.0 (pages 167-176) (*Annexure 4*). The QGMPMM Release 3.0 sets out the responsibilities of a project board during the life of a project which include:

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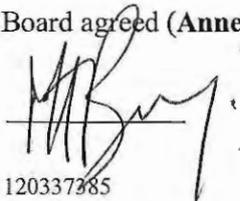


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- a. to decide whether to give authorisation to proceed to the next management stage by reviewing the status of the current stage, previewing the next stage plan (or exception plan) and assessing the overall project viability; and
 - b. to provide guidance and direction throughout the project.
37. The Board was the authority to oversee all aspects of the Project including all Project activities and key milestones, and to authorise the 'go-live decision' for the Solution.
38. The membership of the Board in April 2009 comprised:
- a. Project Executive and Chair of the Board: Mr Kalimnios;
 - b. Senior Business User: Mr Shea;
 - c. Portfolio Executive: me;
 - d. ICT Supplier: Mr Doak.
39. Key advisory roles on the Board were:
- a. Portfolio Assurance: Mr J Brown; and
 - b. Program Assurance: Tony Price (Director QHEST).
40. For the period April 2009 to 25 June 2009, CorpTech provided the secretariat to the Board, thereafter the secretariat was provided by QH.
41. The Project Directorate had relevant senior staff representation drawn from QH, IBM and CorpTech. It was created well prior to my appointment to CorpTech. It was the primary advisory body to the Board, transitioning its role in supporting the previous QHIC Implementation Steering Committee. Its membership from July 2009 comprised:
- a. Mr J Brown (Chair);
 - b. Mr Price;
 - c. Janette Jones (Director, QH);
 - d. Terry Burns (Independent Assurance Advisor retained by QH);
 - e. Jane Stewart (Director, CorpTech);
 - f. Mr Doak;
 - g. John Gower (Project Director, IBM);
 - h. Mark Dymock (Project Manager, IBM).
42. Prior to 21 July 2009, there was tension between IBM and QH in terms of the Project Directorate governance. Mr Doak raised his concerns with me in emails dated 1 July 2009 (CCMB 255 and CCMB 256).
43. QH provided the Chair for the Project Directorate (Mr Price) until 21 July 2009. On 16 July 2009, the Board agreed (**Annexure 5A**) that Mr J Brown would act as independent chair for

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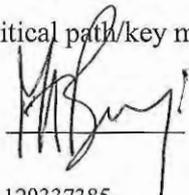


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the Project Directorate. The Board envisaged that Mr J Brown would act as the linkage between the Project Directorate and the Board and that he would insert a degree of independence into the Project Directorate processes required to ensure it operated effectively, that it oversaw the content matter on the agenda, and to ensure that robust discussions were effectively managed and outcomes delivered. I made reference to this in my ADG briefing note to Ms MacDonald dated 21 July 2009 (**Annexure 5B**).

44. After Mr J Brown was appointed chair of the Project Directorate, the personality-related tensions between IBM and QH were eased.
45. QH had engaged an independent quality assurance advisor – Mr Terry Burns. Mr Burns participated on the Project Directorate but also acted independently, as I understood, reporting directly to Mr Kalimnios as he maintained a watching brief over all activities and provided advice on Project schedule status, Project risk profile, and emerging issues which could impact on the Project's delivery.
46. QH had a number of its own business forums/groups who were concerned with the Project. These groups were comprised of QH personnel and were managed independently of the formal governance arrangements for the Project. However these groups still made decisions which affected the Project and from time to time matters from these groups were escalated through to, and they joined in discussion with, the Project Directorate and the Board.
47. In August, 2009 following discussions between me, Mr Kalimnios and Mr Shea about the need to have tighter/better links between the business forums, the Project Directorate and the Board, Mr Kalimnios decided to abolish the QH Business Reference Group. This is referred to in his email dated 17 August 2009 to me (**CCMB 290**). From 25 August 2009, the key business leaders (Brigid Bourke, Chief Financial Officer, QH; Russ Wilde, Senior Director Human Resources, QH; Ms Jones, Executive Director, QHSSP, Amanda Doughty, QH Project Manager, and Mr Burns were invited to participate in Board meetings.
48. Mr Kalimnios also noted in his email dated 18 August 2009 the need for the QH Project Manager, Ms Doughty, to maintain a holistic view of the Project's schedule of work. The history of this was that at the Board meeting of 4 June 2009, it was identified that there was not a single base-lined schedule and critical path for the Project and therefore it was extremely difficult to determine what impact changes in dates would have on the ultimate go-live date. An integrated schedule (**Project Schedule**) was developed in June 2009 that incorporated all activities being undertaken by QH, IBM and CorpTech, clearly showing the interdependencies and the critical path/key milestones and decision points.

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49. Ray Brown (Chief Information Officer, QH) and Bob McDonald (QH Internal Audit) were also invited to Board meetings as required. The QH Project Manager coordinated the involvement of the QH Information Technology Group and QH Internal Audit Group in Project level activities.
50. Throughout my involvement with the Project, I aimed to improve its governance, including by revising the Board format and membership, responding to Mr Doak's concerns regarding the Project Directorate chair (by email 1 July 2009) (**Annexure 6A**), and liaising with Mr Kalimnios (17 and 18 August 2009) (**CCMB 290**) (**Annexure 6B**), upon receiving advice that Ms Doughty was leaving, on how to limit the impact of this transition, and also on expanded business representation on the Board.
51. From the time of my appointment up until when the system went live on Sunday 14 March 2010 for a 1st payday of Wednesday 24 March 2010, I provided written briefings on the Project to my direct supervisor Natalie Macdonald, which I presented in regular fortnightly meetings, issue-specific briefing notes, submissions and emails. Following go-live on 14 March 2010, I provided my direct supervisor with updates on the status of the Project (which, post go-live, was called the Queensland Health HR Solution (**QHHR Solution**)). From the 16 April 2010 a daily QHHR Solution update report was provided to Natalie Macdonald.

5. Project Management

52. In my view, from the commencement of the Board on 6 April 2009, the Project was adequately managed in accordance with the QGMPMM. Not all aspects of the Project's governance were optimal. The ADG Briefing CTC15555 dated 11 May 2009 (**CCMB 237**), which was prepared by the Contracts Team, highlighted some program and Project learnings, including:
- a. the executed Contract deviated significantly from the GITC standard terms and conditions, which resulted in the use of a change control process, which in my view left scope for it to be exploited;
 - b. Project governance was shared between an Executive Steering Committee and a Project Steering Committee which did not have CorpTech executive representation, so decisions were endorsed without referencing the Contractual obligations. This was remedied by the implementation of the Board from 6 April 2009;

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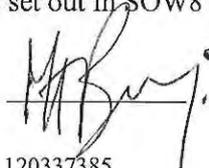
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- c. the Prime Contractor (IBM) did not follow its methodology – the IBM Ascendant Methodology. I was informed by Mr J Brown that the Project controls that were put in place did not enforce the use of the methodology and by Philip Hood that at times throughout the Project expected processes and practices were not in place;
 - d. inadequate detail in the requirements specification, which led to problems in managing scope; and
 - e. changes in Project management expertise – There were several changes in key Project management positions both from IBM and QH. This led to different Project managers applying varying degrees of expertise and rigor at different times around the management of Project deliverables and the Project schedule.
53. However given these and other issues that arose throughout the Project, I took the steps that I considered reasonable and proper in the circumstances to mitigate the risks and improve the governance approach.
54. I worked to ensure that as many as reasonably possible of the elements of Project management from a governance perspective, generally in accordance with the QGMPMM were adopted.
55. In terms of governance systems:
- a. independent assurance was in place both from the perspective of ongoing monitoring and advice and also reviews were commissioned such as the KJ Ross testing review and the SAP Report, referred to in paragraphs 179 and 161 below respectively;
 - b. acceptance/approval criteria existed for critical steps of the Project such as entry into UAT, exit from UAT, various gate approvals for implementation and for the acceptance of the deployable Solution;
 - c. for critical decisions, the Project Directorate prepared detailed submissions and IBM prepared presentations to inform the Board deliberations. Mr Burns also provided detailed report cards to each critical Board meeting on the Project key activities/deliverables.
56. In regard to the implementation of this Project, I mainly engaged with executive-level personnel within QH (Mr Kalimnios, Mr Shea and Mr Price), IBM (Mr Doak, Mr Gower and Mr Dymock) and DPW (Mr J Brown and Mr Hood).
57. In my view, the people with whom I dealt adequately understood their respective roles in the Project as set out in SOW8 (Annexure 2) in the Contract (CCMB 1).

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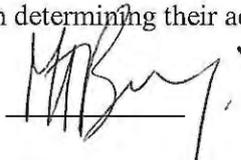


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58. The challenge for the Board was the coordination needed for effective delivery of the Solution. The outcome which all parties were seeking was a working payroll solution that delivered correct pays to employees of QH. As the Contract manager, I was also seeking to have this outcome delivered in accordance with the Contract and as economically as possible.
59. IBM's performance was sub-optimal in a number of respects:
- a. there were a number of changes of key personnel by IBM during the life of the Project. Rigorous use of the Project methodology by IBM would have seen good Project documentation maintained throughout the Project, so that these changes were better managed. There were times when significant workshops needed to be held to assemble key experts to brainstorm details that should have been captured earlier in the design stage. As mentioned in the SAP Report, referred to in paragraph 161 below, the system-related documentation could have been much improved across the board. The documentation was simply not adequately maintained throughout the Project;
 - b. IBM often made commitments based on their best estimates that were not realised, either in time or in effort, and the roll-on effects of missed dates were often not made clear;
 - c. there were four (4) phases of UAT, because the earlier phases identified significant absence of required functionality for a working payroll system. Some of the IBM changes were not well-tested before being released by IBM for UAT, for example the finance/HR interface. There was a lack of a traceability matrix which showed how the Solution addressed each of QH's business user requirements; and
 - d. the number of go-live date changes led to a lack of confidence from time to time from QH and CorpTech in IBM's commitment to and competence in delivering the Project.
60. In July 2008, IBM replaced its (then) Program Director with Mr Doak, a senior IBM executive. Mr Doak commented to me on a number of occasions that this Project was costing IBM a lot of money. The Contract provided that all pricing was based on the Contractor (IBM) having full discretion over allocation of its resources. The State provided a number of resources to work on the build of the Solution under the direction of IBM. It became clear to me that balancing results within the constraints of revenue from the Project was given priority by IBM in determining their actions.

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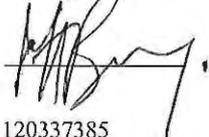
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61. Also, the following matters indicated to me that the Project management was not rigorous:
- a. an integrated schedule that showed all tasks (IBM, QH and CorpTech) and a critical path was not put in place until it was requested by the Board in June 2009;
 - b. before this was in place, QH and IBM maintained their own Project schedules for their individual areas of responsibility, relying on the QH and IBM Project Managers coordinating their activities.
62. The development of the Project Schedule became the subject of a series of workshops in about June 2009 involving all players (IBM/QH/CorpTech).
63. The Project Schedule gave everyone a higher level of confidence that, when dealing with a changed date, the impacts could be more readily identified and dealt with.
64. In May 2009, when entering into UAT4, CorpTech raised a concern that there did not appear to be a requirements traceability matrix which would allow tracking of the testing against requirements. IBM did a body of work to put this in place, however, it required significant participation from QH, and given the workloads associated with the Project at the time, QH was not in a position to dedicate resources to complete this work. Given the previous UAT activities, it was a surprise to me that IBM did not already have this matrix in place and being maintained.

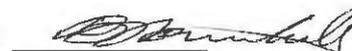
6. Responsibility for Business Requirements

65. QH was the business user of the Solution and was primarily responsible for the payment of QH employee entitlements. Under the Contract, it was primarily responsible for ensuring its business requirements were reflected in the scope of works, for undertaking data cleansing and migration, user acceptance processes, staff training and for ensuring business processes and practices were ready to utilise the new system.
66. QH approved the business requirements specification and this became a part of the Contract.
67. From my observation and experience, a quick assessment at the outset of the Project of the end-to-end payroll process within QH should have identified that a major component of payroll processing was done outside (off) the LATTICE system through subsidiary systems or manual activities. This would have assisted in assessing the completeness of the business requirements specification. Judging from the range and number of subsequent out-of-scope requirements, in my view the requirements specification was not done with sufficient rigour.
68. I consider that IBM should have been able to provide advice to QH about the level of detail in terms of it being sufficient to guide development, as part of its professional and Contractual

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responsibilities, before the business requirements deliverable document was submitted as a final.

7. Defect Classification

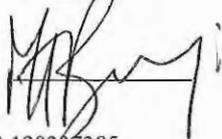
7.1 Defect Identification

69. As the Solution was being developed, defects in its performance were identified as part of the system testing processes. This is a usual occurrence in ICT projects.
70. The defect clause contained in the Contract required IBM to remedy all defects before QH accepted the Solution.
71. Under the Contract, QH was responsible for the functionality and management of UAT. CorpTech's role was to support QH in the delivery of the UAT outcome. CorpTech only became directly involved in UAT where it was relevant to CorpTech's post go-live areas of responsibility. As CorpTech would become the eventual system owner and support entity it needed to ensure that areas relevant to its ongoing support and maintenance of the system post go-live were functional. CorpTech's post go-live areas of responsibility included pay run activities and support service.
72. In about March 2009, I became aware that QH had engaged KJ Ross Pty Ltd (*K J Ross*), a company specialising in independent testing, to oversee the management of UAT for QHEST. KJ Ross's role was to provide consulting and management as to the best approaches for UAT and to ensure that it was carried out as efficiently and expediently as possible given the operating parameters and directives that were placed on the testing effort by QH.
73. QH established a number of user representative forums to ensure user input into its areas of accountability, including UAT. The QH Steering Committee and the QH Business Review Committee were user representative forums established by QH.
74. UAT was a significant topic discussed at most Board meetings from its inaugural meeting on 2 April 2009.
75. I was not involved in the performance of the UAT. As a Board member, I was kept informed of the testing activities, defects and progress made to rectify defects. At all times I believed that the activities, definitions and criteria applied throughout UAT accorded with the advice of K J Ross given to QH.

7.2 Defect Definitions

76. Once identified, a defect was primarily categorised as either a 'core system' defect or a 'new requirement' defect.

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77. A core system defect was one which fell within the business requirement specification in the Contract, prepared by QH. A new requirement defect was one which fell outside the business requirement specification and was the subject of an out-of-scope process which could result in a change request being approved.
78. System defects were to be further categorised according to severity. This process determined priority assignment. The severity of a defect determined the priority to be applied to its resolution.
79. The definitions of defect severity used in the Project were consistent with those used for other ICT systems projects. A Severity 1 defect (*Sev 1 Defect*) indicates a 'show stopper', as the entire application, component or function will not work and there is no bypass available, so it must be resolved immediately. A Severity 2 defect (*Sev 2 Defect*) indicates that a major component or function will not work, testing is severely impacted but can proceed eg payroll results are incorrect such as a payrule in Workbrain is incorrect, so the defect must be resolved with high priority. Severity 3 (*Sev 3 Defect*) indicates that a minor portion of the application, component or function will not work but that a work-around is available; testing is impacted but can proceed; all should be addressed prior to release or have a remedial action plan. Severity 4 (*Sev 4 Defect*) cosmetic or minimal impact such as spelling error or inconsistency in format; should be fixed when practicable; no impact on test schedule. .
80. K J Ross would have advised QH on the definitions for severity defect levels before I commenced with CorpTech. To my knowledge they were not altered during the Project.

7.3 Provisional Defect Classification

81. QH and IBM had primary responsibility for classifying defects as core system defects or as new requirement defects. I was not involved in the primary classification of defects.
82. My understanding was that during UAT, IBM and QH:
- individually assessed each defect and assigned it a severity classification;
 - compared their respective provisional classification;
 - on agreement, finalised the classifications;
 - IBM identified defects that they believed to be 'new requirements' and advised QH; which then triggered further discussion and an agreed classification as either core defects or new requirements before IBM would add these to the severity list for rectification.

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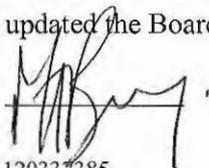
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83. Where QH and IBM disagreed on the provisional classifications, the issue was escalated initially within QH and, if not resolved, to the Project Directorate. If the issue could not be resolved by the Project Directorate, it was escalated to the Board.
84. CorpTech was involved in provisional defects classification only if the defect was relevant to CorpTech's post go-live areas of responsibility, discussed in paragraph 71 above.

7.4 Defect Categorisation

85. Based on my 30 years of experience in the ICT industry, the revision of the severity level assigned to a defect is an appropriate and indeed common activity. It must, however, be an informed and controlled process.
86. Provisional severity level categorisation is, by definition, provisional and subject to change. QH and IBM both reviewed provisional categorisations and where appropriate, alterations were agreed.
87. There are a number of valid reasons to re-categorise the severity level of a defect, including:
- a. a defect may have been raised or incorrectly categorised because of lack of tester knowledge or experience or because incorrect data was used during testing; or
 - b. a defect may be categorised as a Sev 2 where documentation is not of the required standard and this may not be related to the Solution functionality being in error, therefore it may in reality be a Sev 3.
88. QH was a firm proponent of appropriately categorising the severity of defects, even if that meant subsequent re-categorisation. QH led the re-categorisation and approval process.
89. The re-categorisation of defects was only carried out after extensive review led by QH, with input from KJ Ross, and subsequent agreement by all parties (IBM and, where appropriate, CorpTech). Any suggestion that defects were re-categorised simply to hurry the Project through or to make IBM's task easier is incorrect. At all times, the delivery of a workable payroll solution that paid employees correctly was the outcome being sought.
90. The Board took an active interest in the progress of testing and defect rectification. IBM and QH together managed this activity, with Mr Shea taking leadership in resolving issues associated with this activity as part of his line management and Project accountabilities. The Board did not get involved in the detail of reclassification of defects, instead maintaining a strategic overview of the process.
91. At the first meeting of the Board on 2 April 2009 (CCMB 220), Mr Gower (IBM Project Manager) updated the Board on the pertinent risks and issues of the Project to that point in

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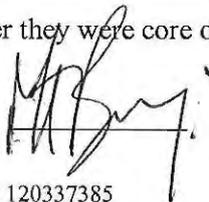


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- time. He advised the Board that there were no outstanding Sev 1 defects and that all identified Sev 2 defects had resolution plans and would be resolved by 20 April 2009 as a pre-requisite to progressing to the fourth round of UAT (*UAT4*).
92. At this meeting, Mr Shea raised the issue of the difference between a change request and a defect and there was general Board level discussion of this issue. It was important because, as testing progressed, additional defects were identified and disputes arose between IBM and QH as to whether things which were identified as 'defects' were in fact new business requirements. Mr Shea's concern was that many of the additional defects were critical to a working payroll solution and therefore needed to be rectified and incorporated into the Solution.
93. The scope for dispute was ample because of the matters set out in paragraph 20 above of my statement.
94. Mr J Brown suggested the need to workshop this issue to reach an agreement. I supported this approach and requested that it happen as soon as possible. The Board agreed that Mr Campbell would organise the workshop and would involve appropriate staff from IBM and QH, which he did prior to 27 April 2009. This workshop involved an assessment of all outstanding issues.
95. At no time did I receive advice, nor did I consider that there should be a complete review of the QH business requirements to rectify the high-level definitions of business requirements in the Contract. To do this would have meant a 'halt' to then current Project activities for a minimum of 3-6 months, as a revised set of requirements would have led to a demand from IBM to 're-cost' the effort and any delays to finalise any resultant Contract negotiations. Given that there had been 3 stages of UAT and that the fourth stage was to be commenced in May 2009, it was accepted by QH and IBM that all test scripts would have been run by then, so all requirements would then have been identified.
96. In my email to Mr Grierson on 25 March 2009 (**Annexure 7**) I indicated that QH was confident that the Solution would deliver a workable payroll solution however there remained a number of workarounds which QH was willing to accept. Continuing with the testing was seen as the appropriate approach, as it advanced the Project towards an implementation. The intent was to have all additional work required for a workable payroll solution wrapped into CR184. This was consistent with the legal advice that had been received.
97. At the Board meeting on 27 April 2009 (**CCMB 228**), Ms Doughty (the QH Project Manager) advised that a list had been prepared of issues which were classified as 'in dispute'; that is, as to whether they were core or new business requirements. CorpTech had agreed to raise a

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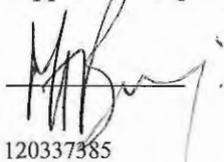
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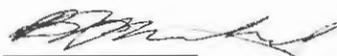
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- change request for a small number of critical issues as identified in the workshop to be resolved, as these were fundamental to a working payroll and important to progress prior to entry into UAT. This was change request 194 (*CR194*), referred to in paragraph 155(a) below. IBM functional experts (ie programmers) had met on the morning of 27 April 2009 to review the list prepared by QH of those items, to assign provisional categorisation of severity level so requested delivery dates could be determined.
98. At the Board meeting on 5 May 2009 (**CCMB 233**), Mr Price advised that a critical review of all defects had been undertaken to ensure that all defects that affected the net pay calculation were categorised as Sev 2 Defects. The Board agreed that if there was a defect which affected the net pay then that defect would be categorised as a Sev 2 Defect. The Board approved the recommendation from the Project Directorate (**Annexure 8**) to commence phase 4 of UAT on 6 May 2009 even though a number of Sev 2 Defects had yet to be rectified by IBM. Ms Doughty indicated that a draft list of all issues required to be rectified before go-live had been given to IBM with the final list to be delivered by close-of-business on 6 May 2009. Concern was raised at this meeting about IBM's ability to resolve all issues on the list and commit to the then August 2009 go-live date.
99. Also at the Board meeting on 5 May 2009 (**CCMB 233**), Ms Doughty gave a status of UAT readiness (**Annexure 9**). The UAT test execution plan for both payroll and finance had been reviewed and agreed upon by IBM and QHEST. Also the process for categorising the severity of defects during UAT had been defined and agreed between IBM and QH. A current list of 35 workarounds had been defined. One workaround had not as yet been defined and this related to cost allocation.
100. IBM agreed to work with QH to undertake an analysis of the outstanding issues required to be addressed before go-live. QH confirmed that the list of issues/defects was comprehensive and that there were no other known items required to be addressed before the go-live date, the exception being any issues found during UAT.
101. At the Board meeting on 12 May 2009 (**CCMB 239**), (6 days into UAT4), IBM indicated that the assessment of the list of issues was progressing. Mr Doak explained to the Board that not all issues could be resolved before go-live and he proposed that some should be delayed to be delivered post go-live. The Board questioned IBM on the ability of current resource levels to do the work required before go-live. Mr Kalimnios indicated that in order to move past arguments regarding the availability of IBM resources, the Board needed to define what needed to happen to complete the Project on schedule.

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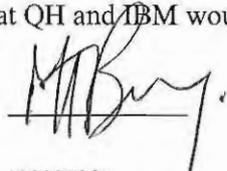
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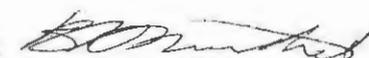
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102. Also at the Board meeting on 12 May 2009 (**CCMB 239**), the Board agreed to disregard all current language eg. 'severities', 'defects' and 'buckets' etc for the purpose of their discussions. All discussion of issues relating to the Project at the Board would from then on be referred to as 'a go-live problem' or 'post go-live resolution'. That does not mean that this language was abandoned at levels below the Board. The Project Directorate was assigned the responsibility to define and advise what was required for go-live.
103. It was agreed that go-live problems would be those which would affect the correct calculation of a pay and would be required to be resolved for go-live. The Board was clear that the end result of this Project must be that QH had a working payroll system and that any go-live decision would require the Board to have confidence that it would deliver correct pays for QH employees.
104. The Board determined that all outstanding defects which did not affect a pay calculation and had not been already included in the Project Schedule for resolution would be included in a 'Defect Management Plan', later renamed a 'Solution and Defect Management Plan' (**SDM Plan**) which contained a schedule of all outstanding defects and their proposed resolution date.
105. Mr Doak, Mr Kalimnios and I held a separate meeting shortly after the 12 May 2009 Board meeting for a discussion of resources. There was acknowledgement that a number of "go-live problems" which would have been previously deemed "out of scope" were now to be addressed by IBM.
106. At the 19 May 2009 Board meeting (**CCMB 241**), IBM advised that it had met with QH on Monday 18 May 2009 and as a consequence of the QH analysis of all outstanding issues, a further six items were added to the consolidated issues list to be resolved before go-live, making a total of 78 items. IBM and QH agreed that there were no other known items that needed to be added to the list. IBM advised that to resolve all of these issues meant that the go-live date would need to move from August 2009 to 30 November 2009 with the current resources. The Board questioned whether an assessment to determine the number of affected employees for each fault had been undertaken. Mr Gower confirmed that this was done and QH had gone through the workaround register. Mr Price advised that the UAT was not progressing as per the Project Schedule and unless the clear-up rate for defects improved significantly the go-live date of August 2009 would be impacted.
107. At the Board meeting on 26 May 2009 (**CCMB 243**), following lengthy discussion, it was agreed that QH and IBM would look at an issue raised regarding the need for additional

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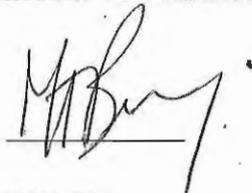


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regression testing and the impact that this would have on the Project Schedule and provide a jointly agreed (IBM, QH and CorpTech) proposed implementation date for the next Board meeting. IBM schedulers, QH and QHEST staff subsequently held a series of workshops over the following 2 weeks to assess the risks, assumptions and dependencies that this involved.

108. At the Board meeting on 18 June 2009 (**Annexure 10**), the following Board expectations were noted:
- a. from a Board perspective it was expected that by 24 July 2009 all agreed Sev 1 Defects and Sev 2 Defects required for go-live were to be resolved and successfully retested;
 - b. QH was to perform a full run-through of all test scripts at least once by 3 July 2009 to identify errors/defects and that these new defects would be reviewed and any requiring to be resolved before go-live would be identified;
 - c. retesting would be factored into the three-week period between 3 July 2009 and 24 July 2009.
109. Mr Price indicated that there was a low level of confidence in IBM being able to rectify all of the Sev 1 Defects and Sev 2 Defects required for go live before 24 July 2009 and if this did not happen then it was highly unlikely that IBM would meet a November go-live date.
110. A series of emails between Mr Doak, Mr Shea and I dated 1 July 2009 (**CCMB 255 and CCMB 256**) shows the rising level of tension between the parties in relation to defect categorisation and the progress of testing and defect rectification. As indicated in my response email to Mr Doak, I had a discussion with Mr Shea who informed me that he had authorised the review of all Sev 2 Defects arising from the full run of scripts in the then pre-UAT process. The purpose of this review was to ensure that the categorisation of all Sev 2 Defects was appropriate. That review was carried out by Mr Gower (IBM), Jeanette Jones (QH), Mr Price (QH) and Ms Stewart (CorpTech).
111. CorpTech provided feedback to this review and recommended upgrading a number of defects that related to CorpTech's post go-live responsibilities as referred to in paragraph 71 above.
112. At the Board meeting on 9 July 2009 (**CCMB 261**) Mr Price overviewed the review outcomes. The review indicated that 60 Sev 2 Defects could be re-categorised but that this may not be the final result. The Board agreed that that if this were to be the result, then dates for the resolution of the re-categorised defects would need to be assigned and inserted into the Project Schedule. This did not represent a lowering of the Project's standard or accepting a

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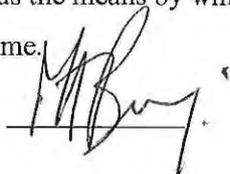


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- lesser-quality build. None of the defects which were re-categorised affected the calculation of an employee's pay.
113. At the Board meeting on 9 July 2009 (**CCMB 261**) Mr Price indicated that Brett Cowan from KJ Ross had advised that if Sev 1s or Sev 2s were found during end-to-end UAT, it would be appropriate to suspend UAT until these were resolved.
114. In my briefing note to the ADG dated 14 July 2009 (**Annexure 11**), I noted that the options under consideration were to delay the start of the 'end to end' UAT by two weeks or commence 'end to end' UAT as planned with some errors outstanding and schedule a further release mid-way through the testing.
115. At the Board meeting on 16 July 2009 (Annexure 5A), it was agreed that UAT end-to-end required a clean entry and no Sev 2 Defects (required for go-live) and therefore the entry criteria were not met. It was agreed to extend the start date of UAT end-to-end by 2 weeks.
116. As indicated in my briefing note to the ADG dated 27 July 2009 (**CCMB 272**), QH/IBM and CorpTech had reviewed the Sev 2 Defects and agreed that a number be re-categorised to Sev 3 Defect priority 0. Neither I nor the Board were personally responsible for this re-categorisation. Rather, the Board received advice from those reporting to it that the usual rigorous processes had been gone through that the changes were reasonable and justified. These changes would allow IBM to concentrate on the priority Sev 2 Defects (required for go-live) for UAT and then to have the Sev 3 Defects priority 0 rectified as an exit criteria for UAT. The agreed condition for the 31 July 2009 entry into end-to-end UAT was that there were no Sev 1 Defects or Sev 2 Defect as determined by the Board. IBM had indicated that, with the reduced list of defects, a further 2 weeks would be required by them to rectify these and there would be no impact on the then proposed go-live date in November 2009.
117. By the end of July 2009, the Board had an understanding of the program of work required by IBM to deliver a workable payroll solution for QH.
- 8. Change Request 184**
118. The negotiations leading to Change request 184 (**CR184**) (Annexure 3) had already commenced by the time I arrived at CorpTech on 6th February 2009.
119. As noted in paragraph 16 above, during my initial briefings with Mr Grierson in February 2009, he informed me that essentially he wanted to stem the flow of change requests, put a floor under the Project costs and get it to implementation.
120. CR184 was the means by which CorpTech, with the participation of QH, sought to achieve this outcome.

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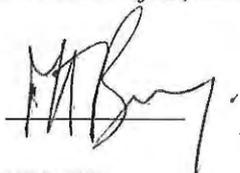
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121. CR184 was ultimately designed to provide a once-off, commercial payment to resolve all current and future disputes with IBM about scope and secure delivery of the Project. It also secured a number of requirements essential to progressing implementation, including establishment of the Board to ensure appropriate Project management.
122. The total ultimate cost of CR184 was \$9 million. It was by far the most significant of all the change requests. As at 6 February 2009 when I joined CorpTech as Executive Director, the IBM related cost of the QHIC project were the original \$6,194,933 plus \$3,953,190 additional that related to 27 change requests approved before 6 February 2009.

8.1 The formulation of CR184

123. Ms Perrott's letter of 21 January 2009 (**CCMB 178**) sought a proposal from IBM as to how it intended to acquit its obligations under the contract and stated that "IBM's proposal should address any variations that IBM proposes including project schedule, and payments".
124. In response, Mr Doak provided a proposal from IBM on 23 February 2009 (**CCMB 200**) for an additional \$9.5 million which set out the following:
- a. delivering the Solution as built as at 23 February 2009, including the work products required by change request 176 (which related to WorkBrain), 'Staff Transfers' and 'End of Month Accruals', on a number of conditions including no further changes to scope for the Solution and commencement dates for UAT;
 - b. a first pay run on 29 June 2009; and
 - c. post go-live releases incorporating changes to the 'HR-Finance Integration' by a date estimated to be 9 November 2009, in relation to 'Cost Allocations', 'Balance Sheet' and 'Nurses Practice Development Education (Concurrent Employment)'.
125. Based on advice received from the Strategic Program Office who had reviewed the IBM proposal, CorpTech considered that IBM's proposal was unacceptable because it transferred significant obligations, risk and costs to QH and CorpTech. Further, the reduction in scope of requirements to be met before go-live would not provide QH with what was, in its view, an acceptable payroll system.
126. In about late February or early March 2009, I discussed this offer and the proposed terms of a counter-proposal with Mr Grierson and Mr Kalimnios of QH. We considered that IBM's offer allowed IBM to alter the scope of pre go-live requirements, would not bring about the timely completion of the Project, and it included a significant additional cost. It was agreed that a

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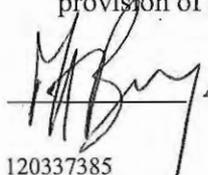


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one-off commercial payment which didn't change the terms of the Contract should be progressed.

127. I had discussions with Mr Shea and Mr Kalimnios and then I provided CorpTech's counter-proposal to Mr Doak on 2 March 2009 (**CCMB 203**), which included:
- a. QH abandoning its requirement for functionality for 'non standard Cost-Allocation' to be included in the Solution prior to go-live;
 - b. an extension of time for completion of the Solution to 9 November 2009;
 - c. a performance payment of \$2 million upon acceptance by QH of the Solution. The payment was subject to the Solution being fully supportable, maintainable and meeting the operational and business requirements for both QH and CorpTech.
128. IBM's response of 13 March 2009 (**CCMB 205**) provided for further reductions in the scope for pre go-live requirements and for a reduction in IBM's management team, the Program Delivery Team. The proposed go-live date was 29 June 2009. The total estimated cost for the proposal was \$3 million.
129. On 25 March 2009, I emailed Mr Grierson (Annexure 7) who was overseas on leave informing him of CorpTech's proposal not to vary the Contract and leaving responsibility for delivering the Solution with IBM in addition to a payment of \$5 million and to secure a go-live date of 24 August 2009. I referred to the advice that Mr Shea had given me confirming that QH was confident that the system would deliver a workable payroll solution, however, that there remained a number of manual workarounds that QH were willing to accept.
130. Mr Grierson replied on 26 March 2009 (Annexure 7) agreeing with my proposal and authorising that I proceed to make the offer to IBM.
131. On 31 March 2009 (**CCMB 219**) I made a submission to the Acting Director General of the DPW at the time, Max Smith, requesting that he endorse the approach I had emailed to Mr Grierson. I recommended that QH refuse to vary the Contract, and agree to pay a \$5 million to IBM through CR184, on the basis that the Solution go live by 23 August 2009. The \$5 million was to be in consideration of the following:
- a. an extension to IBM's schedule to permit additional UAT, Stress and Volume Testing and Performance Testing to be conducted on the system to reduce the risk of problems and failure after go-live;
 - b. compensation for the additional resources to be provided by IBM for the provision of a Program Management Office;

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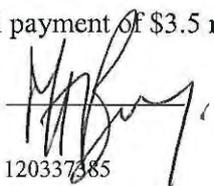
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- c. recognition that IBM would be delivering additional resources to the Project given the additional complexity of the QH LATTICE replacement and in delivering the required functionality to achieve the revised go-live date;
 - d. the payment was to be in satisfaction of all claims for additional payments under the Contract and that IBM would not be entitled to any additional payments for IBM's extension of time.
132. In this submission (**CCMB 219**) I also recommended that a new governance model, in accordance with the QGMPMM guideline, be established for the Project.
133. On 31 March 2009 (**CCMB 219**), Max Smith wrote to Mr Doak on the terms recommended by me on 31 March 2009 and in accordance with my submission of that date.
134. IBM, QH and CorpTech informally agreed shortly after 31 March 2009 to establish the Board pending the finalisation of negotiation of CR184. The Project Directorate would remain and be the primary advisory group to the Board.
135. The negotiations in relation to the terms of CR184 stalled after the Board was informally established, as through Board meetings there were ongoing discussions about scope (core versus out-of-scope issues) which was at the heart of CR184. Work on the Project continued 'in good faith' that CR184 would be progressed.
136. The Board at its meeting on 5 May 2009 (**CCMB 233**), approved the commencement of UAT4, although a number of Sev 2 Defects had not been rectified by IBM. IBM agreed at the meeting to undertake (with QH) an analysis of the outstanding issues that were required before go-live and to provide a report on whether these issues could be resolved for the implementation date of 23 August 2009. Testing continued to raise defects and this was a source of frustration for IBM and QH as items in scope dispute required analysis and negotiation and were seen as diverting resources away from planned activities.
137. On or about 27 May 2009, I briefed Ms MacDonald in Submission CTC 15577 (**CCMB 244**) in relation to IBM's report on the go-live requirements that of the 78 requirements only 53 could be resolved before 23 August 2009, with resolution of the remaining 25 requiring 410 days and a go-live date in December 2009. IBM considered some of the requirements were 'out of scope', requiring 320 days to resolve and a payment in addition to the \$5 million which QH had offered on 31 March 2009 in relation to CR184.

8.2 Options

138. CorpTech estimated that 320 days would normally amount to a request from IBM for an additional payment of \$3.5 million to \$4.5 million. On about 27 May 2009, I informed Ms

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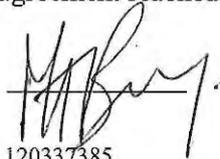
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- MacDonald that at the Board meeting on 26 May 2009, IBM indicated that the 78 items and all errors identified in UAT that affected pay could be resolved if the proposed go-live date was extended to 21 September 2009 without bringing in additional resources. QH indicated that it preferred an implementation date of 18 October 2009 to allow time for it and IBM to perform further verification tests on the Solution.
139. Following the 26 May 2009 (**CCMB 243**) Board meeting, a meeting took place, between Mr Shea, Mr Doak and I, at which, on the basis of shared risk between QH and IBM, agreement in principle was reached that QH would provide an additional \$2 million to the already proposed \$5 million for the delivery of an acceptable working payroll system containing all 78 go-live requirements including rectification of pay-related issues identified during UAT. QH's preferred implementation date of 18 October 2009, was agreed. This proposal would mean that any pay-related issues would be rectified regardless of whether they were considered by IBM to be out-of-scope, effectively taking future scope disputes for the go-live Solution off the table.
140. I attended a meeting with Mr Kalimnios and Mr Doak on 9 June 2009. I do not recall in detail what was discussed, however my memory has been aided by an email I sent on 9 June 2009 to Ms MacDonald (**Annexure 12**), shortly after the meeting. Mr Doak requested \$2 million in addition to the \$7 million offered. Mr Doak said the Project was costing IBM big monies and his superior, Ms Katie Banbrick (Global Head of Business Services for Australia and New Zealand), was prepared to meet with Mr Grierson and Ms MacDonald to finalise negotiations.
141. On 10 June 2009 (**Annexure 13**), Mr Doak wrote to me indicating that he was aware of rumours about the 'imminent closure of the Project' following the meeting we had on 9 June 2009. I viewed Mr Doak's email as an attempt to escalate the pressure on CorpTech and QH to agree to IBM's requested additional payment. Both QH and CorpTech took steps to communicate with Project staff (QH, IBM and CorpTech) that all parties remained committed to the delivery of a working payroll solution for QH.
142. I do not recall attending any meeting with Mr Grierson and representatives of IBM in the days following the meeting on 9 June 2009. I am unable to access my diary from this period as a result of the technology issues I discussed in paragraph 9 above. However, I do recall that, at about this time, I received advice of the outcomes of these discussions from Ms MacDonald, which I set out in my submission referred to in paragraph 143 below.
143. On 25 June 2009 (**CCMB 248**), I provided a written submission to Ms MacDonald on the in-principle agreement reached with IBM to deliver the Solution on or before the end of

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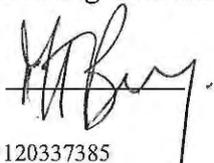


November 2009. I noted in the submission that an additional payment of \$9 million was to be made to IBM. The payment was proposed to be made in consideration of:

- a. an extension of time for the Project to be completed by the end of November 2009;
- b. compensation to IBM for the development of additional functionality required for go-live; and
- c. for the engagement of additional IBM resources to meet the required Project timeframe.

144. On 25 June 2009 (**Annexure 14**), Ms MacDonald wrote to Mr Doak offering a payment of \$9 million under CR184. Ms MacDonald noted that the proposal was the Government's best and final offer and was made in satisfaction of all claims for any additional payments under the Contract with the effect that IBM would not be entitled to any additional payments for any reason.
145. On 25 June 2009 (**CCMB 250**), IBM accepted the conditions for CR184.
146. CR184, as agreed, although approximately the same in cost as IBM had proposed on 23 February 2009 (**CCMB 200**), included a number of significant benefits to QH and the Project, which were absent from IBM's proposal of 23 February 2009.
147. IBM's proposal of 23 February 2009 (**CCMB 200**) essentially provided for delivering the Solution as it was then configured and on the assumption that further changes to scope would not be required by QH. The IBM proposal would have transferred significant obligations, risk and costs to QH and CorpTech. Further, the reduction in scope of requirements to be met before go-live would not provide QH with what was in its view an acceptable payroll system.
148. In doing so, IBM's proposal failed to address the constant dispute about scope that had resulted in the approval of numerous change requests requiring additional payments to be made to IBM. Accepting IBM's position would have, in my view, resulted in the significant additional payment of \$9.5 million while leaving the door open for numerous further, piece-meal change requests related to scope.
149. IBM's proposal also did nothing to address the dysfunctional governance arrangements. CorpTech's proposal, as agreed on 25 June 2009, provided that formal acceptance by QH of the Solution included the provision of all go-live requirements including the correction of current and future issues that prevented QH employees being paid correctly. This meant that the dispute about scope was effectively removed and the focus of IBM and QH turned on what was required for go-live and to ensure employees were paid correctly, which was a significant

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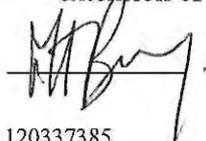
and necessary shift. Aligned with this, a comprehensive management plan (the SDM Plan) was to be agreed between IBM and QH in respect of workarounds or other issues related to allowing defects that remained unresolved prior to go-live. The governance arrangements that I addressed in paragraph 35 above, were also implemented.

150. In my view the negotiations leading up to CR184 and the change request itself, whilst protracted, permitted QH, IBM and CorpTech to gain a better understanding of the body of work that IBM and QH had to complete to achieve a working payroll system.
151. It has been put to me that Mr J Brown, Mr Beeston, Mr Campbell or Mr Bird may have been urging or advising against proceeding with CR184.
152. I do not recall any such urging or advising.
153. I had an open door approach. I often visited Mr J Brown in his office in 60 Edward St, and whilst there I did a quick walk-around to say hello to staff and this included Mr Beeston and Mr Campbell. We did chat about what was happening in the Project. I do not recall them raising any specific concerns about getting advice through to me. I would have expected that they would arrange a meeting with me if there were concerns about this issue or about getting their views to me generally. They could have escalated the issue as a formal complaint should they have wanted to.

9. Change Requests following CR184

154. In my briefing note of 11 May 2009 (**CCMB 237**), I highlighted that IBM had indicated to me that 'for each month the Project is delayed it will incur an additional \$1 million in costs'. This indication from IBM was the first which quantified in monetary terms the financial effect on IBM of delaying the go-live date. Each subsequent change request was considered with estimated costs in mind.
155. The following change requests in addition to CR184 relate to additional payments during my commission.
- a. Change Request 194 (**CR194**) dated 27 April 2009 for the correction of SOW8 Severity 2 defects to enable commencement of UAT on 5 May 2009. This was approved on 18 May 2009 (**CCMB 240**) by me, costing \$100,000. Given the protracted negotiation of CR184, it was deemed imperative that these defects be resolved so the Project could continue to progress pending the finalisation of CR184.
 - b. Change Request 202 (**CR202**) dated 2 November 2009 (**Annexure 15**) for the extension of time and provision of a deployable Solution. This was approved

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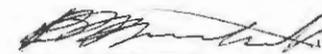
on 12 November 2009 by Ms MacDonald, costing \$1,850,000. As the go-live date of 2 December 2009 was not achieved, the implementation of the Solution had to be deferred into 2010. This would not normally have resulted in an additional payment being made however due to QH indicating that January and February were months of major activity involving staff movements and new hires across the State, it was not acceptable to QH to have an implementation during in this period. The go-live was therefore deferred until March 2010 at QH's request. IBM had indicated that it needed to cover costs of keeping key staff employed on the Project for the intervening period until go-live was achieved.

- c. Change Request 204 (**CR204**) dated 25 November 2009 (**CCMB 435**) for the provision of a Senior Business Analyst to assist QH in defining the business requirements specification for the implementation of Enterprise Bargaining determinations into the QHIC system before go-live. These requirements were clearly new requirements and as such were appropriate to be addressed through a change request. This was approved on 27 November 2009 by Ms Macdonald, costing \$31,200.
- d. Change Request 206 (**CR206**) dated 22 December 2009 (**CCMB 457**) for the design, build and implementation of QH's priority EB requirements, SAP super note and new requirements for QHIC system. These requirements were clearly new requirements and as such were appropriate to be addressed through a change request. This was approved on 24 December 2009 by Ms Macdonald, costing \$1,550,000.
- e. Change Request 210 (**CR210**) dated 11 March 2010 (**CCMB 616**) to undertake an impact assessment of the SAP notes and support stacks 21, 22 for QHIC system required to make the system legislatively compliant for the new financial year 2010-2011. This was approved on 18 March 2010 by Ms Macdonald, costing \$95,000.
- f. Change Request 220 (**CR220**) dated 30 June 2010 (**Annexure 16**) for the implementation of the SAP notes and support stacks for Legislative Compliance in the new financial year 2010-2011. CorpTech engaged Ernst and Young with the agreement of IBM to review the pricing for SOW 50. Ernst and Young's finding indicated that an appropriate estimate for the deployment

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of SAP legislative notes lease into the Solution would be \$1.7 million (excluding GST) instead of the \$2.1 million sought by IBM. This was approved on 30 June 2010 by Ms Macdonald, costing \$1,700,000.

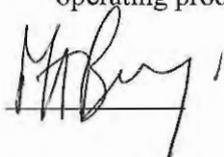
156. The work included in CR206, CR210 and CR220 was originally intended to be completed outside of the Contract but given the numerous extensions to the go-live date, it was deemed appropriate to have IBM carry out these works in recognition of their depth of understanding of the Solution and the warranty and system acceptance provisions of the Contract. Naturally, that involved additional payments to them as they were new requirements to that specified for the Solution.

10. 'Go-Live' Decision

10.1 Pre Go-Live Testing

157. The key Board decisions leading up to the go-live decision were made from January through to March 2010. IBM was responsible for managing the decision gates, further referred to below, and the process of transitioning from LATTICE to the Solution once UAT4 finished on 22 January 2010. IBM assigned an implementation manager, Ms Paula Dann.
158. Ms Dann prepared a report for each of the decision gates which contained details of the completion of specified activities (*Gate Decision Reports*). The Gate Decision Reports were presented to the Board at the relevant Board meetings as set out below. The Gate Decision Reports included a list of the numerous people involved in the task level review, reviews for recommendations and those with the decision responsibilities. The decision gates and their Board approval dates were as follows:
- a. GATE 1: Approval to proceed with Technical Cutover – Board meeting 1 February 2010 (**Annexure 17**). Technical Cutover was the establishment of the technical production environment for the Solution.
 - b. GATE 2: Approval to proceed into Business Cutover – Board meeting 1 March 2010 (**CCMB 580**) (**Annexure 18**). Business Cutover involves migrating data to the new technical environment, establishing the databases and loading the associated records required for a functional payroll system.
 - c. GATE 3: Approval to proceed with Business Go-Live – Simulation 2 – Board meeting 24 February 2010 (**CCMB 561 and 571**) (**Annexure 19**). This decision approved that a system-change freeze commence and simulation of an operating production environment be undertaken.

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- d. GATE 3: Approval to proceed with Final Business Go-live – Board Meeting 12 March 2010 (**CCMB 592**). Final business go-live involves letting the users across QH into the system ie. giving them permission enabling them to operate in the production payroll environment and enabling them to process the rosters and the pays.
159. Throughout the Project, in a parallel set of activities to UAT 4, the Solution underwent a number of verification processes. The outcomes of these tests were critical to the decision to go live. The most critical of these processes were as follows:
- a. Payrun Performance Validation (**PPV**) testing assessed whether the individual payroll processing activities undertaken across QH could be processed within specified time limits. QH was responsible for this testing. At Gate 1, its status was 'Green' - Work Product 3.15e PPV Test completion report accepted (**Annexure 17**).
 - b. Payroll Cycle Verification (**PCV**), assessed whether a complete payroll processing cycle could be processed within specified time windows over the fortnightly pay cycle. CorpTech was responsible for this testing. At Gate 1, its status was 'Green' - Accepted as part of LATTICE Replacement Solution Ready for Deployment Completion Report – stage one (**Annexure 17**).
 - c. Parallel Payroll Run Testing (**PPRT**) reconciled the gross payroll amount between LATTICE and the Solution to establish whether there was any variation and if so, whether it was within acceptable parameters. PPRT was conducted on a sample of 10% of employees rather than all employees, in a full parallel test between LATTICE and the Solution. This course of action was recommended by IBM in February 2008 in its report entitled Parallel Testing Strategy. IBM's proposal was endorsed on 25 February 2008 by Paul Monaghan (Executive Director, QHSSP), Russ Wilde (Senior Director, HR, QH) and Brigid Bourke (Senior Director Finance, QH) and approved by Terry Mehan (General Manager, Central Area, QH). The QHIC Parallel Payroll Testing Test Completion Report dated 21 July 2009 (**CCMB 268**) was accepted and signed off by the QH Business Owner representatives Mr Wilde (Senior Director, HR) and Ms Bourke (Senior Director Finance), Ms Jones (Director Payroll & Establishment Services), Mr

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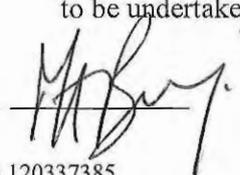
Price (Program Director) and Ms Doughty (Enterprise Replacement Project (*ERP*) Lead).

Results from this test were also validated by QH's internal audit team.

QH was responsible for this testing. At Gate 1 (Annexure 17), its status was 'Green' - Work Product 3.15d PPRT Test Completion Report accepted (**Annexure 20**).

- d. Additional Retro on Retro testing assessed the application and processing of prior period transactions. QH was responsible for this testing. At Gate 1 (Annexure 17), its status was 'Green' - Retro on Retro Report accepted.
- e. Penetration testing, assessed whether the Solution could be compromised by external or unauthorised parties. An external consultant, EWA-Australia Services Pty Ltd (*EWA*), was engaged by CorpTech to undertake this activity. CorpTech was responsible for this testing. At Gate 2, its status was 'Amber' (Annexure 18) – one issue was outstanding which concerned a risk of internal hacking to WorkBrain system. This was deemed low-risk by Project Directorate and the Board determined that a configuration change to address this would be applied.
- f. Performance Validation testing (*PVT*) (including Stress and Volume testing (*S&V*)) assessed whether the Solution could support the transaction volumes and user profiles predicted by QH (This did not test the user-interface or the entry of data into the system). QH provided the data which contained a wide range of payroll transactions with varying degrees of complexity and were considered to be typical of a payrun. This testing also sought to verify that the system could handle the 600 concurrent users scalable up to 1300 concurrent users as specified by QH. CorpTech was responsible for this testing. There were 5 rounds of PVT undertaken during 2009 and 2010 with the Round 5 report dated 22 January 2010 (**CCMB 494**). At Gate 2 its status was 'Green' – All planned test activities completed (Annexure 18). The final report was accepted by the Project Directorate on 2 February, 2010 (**CCMB 520**). There was a risk that S&V would not be completed on the final-build version of the Solution however it was deemed by CorpTech that there had not been any significant changes introduced to the Solution that would require a further S&V to be undertaken.

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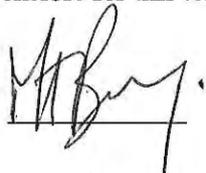


160. Each verification process involved a number of performance criteria and had a number of rounds of testing activities.
161. A SAP report was commissioned by CorpTech in August 2009. It considered the completeness, quality and flexibility of the Solution, use of then current SAP functionality (including whether it was being used for its designed purpose), identified risks with the implementation process and determined SAP's recommended actions to assist with bringing the Project to go-live. SAP submitted its report entitled 'Project Management Review Report' dated 14 September 2009 (*SAP Report*) (CCMB 322). SAP identified 12 high risks and 5 medium risks.
162. The SAP Report was reviewed by CorpTech, QH, and IBM and a management response to it was prepared which addressed each of the identified risks and provided commentary on how each risk was being addressed. The management response dated 28 October 2009 was compiled and signed off by Mr Hood (Executive Director, Service Delivery, CorpTech), Mr Price (Director, QHEST), Ms Jones (Director Payroll and Establishment QHSSP), Mr Gower (Project Manager IBM), Mr Burns (Quality Assurance Advisor QHEST), Ms Stewart (Director, Service Management CorpTech) and Naomi Du Plessis (ERP Lead QH) (CCMB 407). These were all representatives of the Project Directorate.
163. Based on the assessment in the management response, the steps to be taken reduced the risk level to medium for the high risk issues and low for the medium risk issues. The only exception was the risk identified from not conducting a full parallel test for the Solution prior to go-live. As discussed in paragraph 159(c), QH had accepted IBM's Parallel Test Strategy which saw a different approach being approved.
164. The management response was contained in a Board briefing note which was signed on 28 October 2009. I recall the Board briefing note being discussed by the Board at about this time, however, I am unable to find this recorded in the Board minutes that I have been able to source. My recollection is that the Board accepted the management response and assigned the Project Directorate the task of ensuring that the appropriate actions were taken into the Project activities and, where required, addressed in the cut-over plan that contained the schedule of tasks to be undertaken to transition the Solution through to go-live.

10.2 Board Meeting on 22 January 2010

165. UAT involved simulated uses of the Solution to identify defects. QH (advised by KJ Ross) were responsible for this testing. UAT4 occurred from 6 May 2009 until 22 January 2010.

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166. At the Board meeting on 22 January 2010 (**CCMB 494**), the Board agreed to formally exit UAT4 with all remaining defects to be managed by a delegated caucus of the Project Directorate through the SDM Plan referred to in paragraph 104 above. All defects affecting the calculation of a pay were to be rectified and deployed in the go-live Solution. As a consequence of this decision, the Board determined that rectification of open defects not affecting the calculation of a pay that were not able to be rectified in the go-live Solution could be rectified by IBM post go-live. The Board wanted to ensure that IBM completed the rectification of these defects and the SDM Plan was the agreed work program to achieve this.
167. The SDM Plan had been endorsed by the Project Directorate at its meeting on 21 January 2010 (**Annexure 21**) and defined the plan for the management, governance, classification and post go-live deployment of all system changes and defect items remaining open (ie, unresolved, but with an acceptable workaround) as at the end of UAT4.
168. The Board agreed that the Project Directorate held responsibility to manage the SDM Plan and change control mechanisms under the Contract.

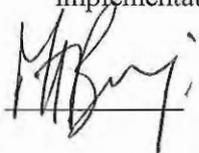
10.3 Board Meeting of 27 January 2010

169. At the Board Meeting of 27 January 2010 (**CCMB 504**), the Board noted that all the criteria set out in the 'Deployable Systems Readiness Criteria' document dated 5 November 2009 (**CCMB 417**), (which were the activities agreed between QH, CorpTech and IBM that needed to be completed in terms of testing, work products and implementation check-lists in order for the Solution to be ready to commence transitioning to implementation to replace LATTICE) had been satisfied, as had the UAT4 exit criteria.

10.4 Board Meeting of 1 February 2010

170. At this meeting, the Gate Decision Report entitled 'Gate 1: Approval to Proceed with Technical Cutover' (**Gate 1 Report**) (Annexure 17) was presented to the Board.
171. The Gate 1 Report sought the Board's approval for the Project to proceed with the next phase of implementation, being the process of transitioning the technical components (eg, migrating data) from LATTICE to the Solution (**Technical Cutover**) on the basis that:
- all criteria set out in the 'Deployable System Readiness Criteria' document dated 5 November 2009 had been fulfilled;
 - the criteria required to cease UAT4 had been fulfilled;
 - Change Request 206 (**CCMB 457**) (which related to the design and build and implementation of QH's enterprise bargaining requirements, SAP

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- superannuation coding and new requirements for the Solution) had been completed and provided by IBM to QH;
- d. testing which simulated the performance of the Technical Cutover process had been completed; and
 - e. other preparation tasks for Technical Cutover had been completed.
172. The Gate 1 Report indicated that some criteria required to be fulfilled before the Project could move past this Gate were allocated an 'Amber' status, which meant they were not satisfied as at the date of the report. Those criteria related to components of the SDM Plan referred to in paragraph 104 above, stress and volume testing and the use of 'Citrix' with the Solution.
173. The Board accepted the risks associated with the 'Amber' status criteria on the recommendation of the Project Directorate and approved proceeding with Technical Cutover. This was because a full risk profile and subsequent mitigation plan was to be presented to the Board prior to Gate 2 on 1 March 2010.

10.5 Board Meeting of 10 February 2010

174. A briefing note 'QHIC Project Risk Profile' dated 10 February 2010 (CCMB 537) was discussed by the Board. This brief identified 3 risk groups:
- a. risks associated with the pay process;
 - b. risk associated with business readiness; and
 - c. risks associated with the SDM Plan.

For each group the Project Directorate had provided mitigation strategies. The Board discussed this at length, noted the mitigation strategies as being appropriate and noted that further briefing material would be provided to Mr Shea and Mr Kalimnios and discussions held within QH on outstanding QH business issues.

175. The Board asked the Project Directorate to provide updates to the Board on the risk profile and effectiveness of the mitigation strategies.

10.6 Relieving General Manager

176. I was on recreation leave for the period 19 February 2010 to 9 March 2010.
177. Dianne Jeans, acting General Manager CorpTech, attended the following Board meetings in my place during this period:
- a. 24 February 2010; and
 - b. 1 March 2010.

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178. I briefed Ms Jeans prior to commencing leave. Upon my return from leave on 10 March 2010, Ms Jeans briefed me on what occurred at these Board meetings as set out below, and provided me with copies of all Board papers and minutes, which I reviewed.

10.7 Board Meeting of 24 February 2010

179. The report by KJ Ross dated 27 January 2010 (*KJ Ross Report*) (CCMB 505) was tabled at this meeting.

180. The report recommended two alternative courses after exiting UAT4:

- a. Option 1 - delay the rollout of the system into production until a full System and Integration Test is conducted. This could be executed by any vendor specialising in Payroll Systems and would be a true measure of the quality of the system. The risk inherent in this option is the appetite of the government for delay, but the risk of system issues in production would be greatly reduced; or
- b. Option 2 - accept the risk that the functional scenarios not touched by the UAT will not perform as expected and that the defects discovered will need to be fixed in production. The risk inherent in this option is that the defects discovered may be so many and/or so complex that they cannot be appropriately managed in a timely manner in production. With the state of the system as revealed by UAT, we can only say that there will be many issues in production, but not give any indication of how large that number will be, nor their impact on the productive system. A true System and Integration Test would be able to give a better insight into this risk (as per option 1).

181. A response to the KJ Ross Report dated 19 February 2010 (*Management Response*) (CCMB 551) was prepared by Mr Price and Ms Jones from QH, Ms Stewart of CorpTech and Mr Dymock of IBM. This Management Response was endorsed by the Project Directorate and tabled for Board consideration. It provided, relevantly:

- a. The Project Directorate agrees that there is a residual risk to continue into production with the number of Sev 2 open defects. However Option 1 presents an equal or greater risk within the legacy system environment to delay the go-live, such as the contingency support nature for LATTICE, limited priority 1 support for ESP and the need for additional infrastructure and technical sizing that would have to be undertaken if the Project was delayed. There is limited

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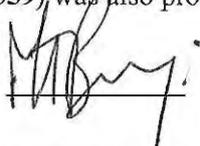
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configuration opportunity in LATTICE with an increased number of workarounds into the future for new requirements;

- b. QH and CorpTech must rely on the expert assurances and advice given by IBM as the prime contractor that their system testing processes have been extensive and adequate for production purposes;
- c. Mitigation strategies that have been identified to proceed with Option 2 include:
 - i. A large number of QHEST, QHSSP, CorpTech and IBM resources has been identified to support the end-users post go-live and resolve open as well as new defects;
 - ii. Defects with high business impact have been prioritised for resolving as soon as possible post go-live. This release strategy and schedule is currently being finalised;
 - iii. Additional workarounds are being formulated, documented and tested where relevant; and
 - iv. QH agreed to address potential payroll issues by communication to the workforce through the appropriate channels.

182. I carefully reviewed the KJ Ross Report recommendations and the Management Response upon my return from leave. I agreed with the Management Response and the recommendations made in it.
183. Given the matters identified in the Management Response, I did not consider Option 1 in the KJ Ross Report was an acceptable course of action to progress the Project. I considered that if Option 1 was pursued, the following, among others, would likely occur:
- a. the go-live date would likely be deferred to September/October 2010 as Option 1 would have a significant impact on the Project Schedule;
 - b. additional costs and increased Project risk would be incurred in retaining personnel, resolving defects and entering into change requests with IBM; and
 - c. legislative changes which affected employees of QH and were due to commence in 2010, would need to be coded into LATTICE, which would in some cases be extremely challenging, in others, would present a high risk of not being able to be incorporated and would, in any event, incur significant additional expense.
184. A 'brief for noting' with the subject 'QHIC Project Risk Profile' dated 24 February 2010 (CCMB 559) was also provided to the Board at the meeting on 24 February 2010. The brief

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for noting was compiled by Ms du Plessis (ERP Lead, QHIC Project, QHEST) with input from a number of business and technical experts from QH (including members from QHEST and QHSSP), CorpTech, IBM and QH's independent assurance advisor, Mr Burns. This brief indicated that:

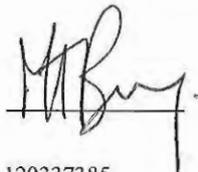
- a. all risks associated with the pay process were 'fully mitigated'; and
- b. all risks associated with QH's business readiness were 'fully mitigated'.

185. Ms Jeans advised me that at the Board meeting on 24 February 2010 (**CCMB 561**), Mr Price and Ms Jones of QH indicated that QH were satisfied that all remaining Sev 2 Defects that affected pay had an acceptable manual workaround and the Solution represented a satisfactory working payroll solution for QH.
186. The Board endorsed the Management Response as recommended by the Project Directorate. The Board agreed that the go-live date decision would be Sunday 14 March 2010.

10.8 Board Meeting of 1 March 2010

187. A submission from the Project Directorate with the subject 'Recommendation to commence with Cutover activities' (**CCMB 576**) was tabled and discussed by the Board at this meeting. The Board sought revision of the submission on the basis of the discussion. This revised version, which was endorsed by the Project Directorate, was circulated to Board members by email on 2 March for approval (**Annexure 22**). The Board secretariat arranged for this revised document to be 'signed' by each of the Board members party to the decision on the 5th March 2010 (**CCMB 580**). Ms Jeans was the signatory for CorpTech.
188. The Gate Decision Report entitled 'Gate 2: Approval to Proceed with Business Cut-over' (**Gate 2 Report**) was tabled at the meeting (**Annexure 18**). The Gate 2 Report indicated that the Board's approval was sought to proceed with transitioning of the business-related components including migrating data to the new technical environment, establishing the databases and loading the associated records required for a functional payroll system from LATTICE to the Solution (**Business Cutover**) on the basis that:
- a. all criteria outstanding after the Board approved Technical Cutover had now been met or were reported to be tracking as expected;
 - b. implementation readiness checklist criteria covering design, process, technical and training documentation readiness; QHIC environment and technical readiness; testing; data migration readiness; agency and payroll readiness; support readiness and continuity, rollback and disaster recovery plans and

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relevant sign-offs had been satisfied or were reported to be tracking as expected; and

- c. Technical Cutover covering Simulation 2.0: Resources and Back ups confirmed; Cut-over task list and timings confirmed; Cut-over approval processes agreed had been completed and communicated successfully.

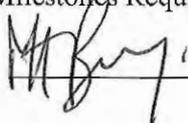
The Gate 2 Report showed UAT status was 'Green' – completed and signed off. The SDM Plan for all outstanding defects to be rectified including release timeframes was completed and agreed (**CCMB 569**).

189. I reviewed a document tabled at this Board meeting entitled 'brief for decision' dated 1 March 2010 with the subject 'Recommendation to commence with cutover activities' (**CCMB 576**) and noted that the Project Directorate agreed all items in the Gate 2 Report were 'Green' or satisfied, with the exception of 3 'Amber' items relating to 'external organisation readiness', the second iteration of PCV (**PCV2**) and 'penetration testing' by EWA. The Project Directorate members agreed that the 'Amber' items were regarded as manageable risks which would be completed or resolved before Gate 3.
190. The following documents were also tabled as supporting documents to the Gate 2 – approval to proceed to Business Cutover status report:
 - a. QHIC PCV2 Draft Test Results as at 26 February 2010 (**Annexure 23**);
 - b. QHIC Infor GoLive Check Response (**Annexure 24**);
 - c. QHIC SAP GoLive Optimisation Report (**CCMB 573**);
 - d. QHIC Project Risks as at 25 February 2010 (**CCMB 559**);
 - e. QHIC Project Directorate Briefing Note on Penetration Testing dated 1 March 2010, prepared by CorpTech (**CCMB 575**). The briefing note indicates that EWA-Australia, the external contractor responsible for penetration testing, had advised 'that there are no significant issues or threats present in the QHHR environment that should delay the go-live of the QHHR Solution from an information security perspective.';
 - f. QHIC post go-live Solution and Defect Management Plan (**CCMB 569**);
 - g. QHIC Final Quality Assurance Risk Paper, prepared by Mr Burns (**CCMB 555**).

10.9 Board Meeting of 12 March 2010

191. I attended the Board meeting on 12 March 2010, at which Mr Burns tabled his report entitled 'Critical Milestones Required for go-live' dated 12 March 2010 (**CCMB 591**). For each

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- criterion, the report commented that there was 'an acceptable position to proceed into Go-Live'.
192. The Board discussed Mr Burns' report extensively. The discussion at the meeting indicated that the Board viewed the assurances in Mr Burns' report of significant importance to this critical Board meeting determination.
193. The Gate Decision Report entitled 'Gate 3: Approval to Proceed with Business go-live' (*Gate 3 Report*) (CCMB 593) was discussed.
194. The Board's approval to proceed with business go-live was sought on the basis that:
- a. Technical Cutover and Business Cutover had been successfully completed and verified;
 - b. Agency and Payroll (eg, payroll and payroll-support staff, communications to staff about go-live, training and transition procedures) were completed or on track;
 - c. post go-live support logistics, support procedures and procedures to transfer relevant knowledge about the Solution were in place; and
 - d. plans were complete in relation to business continuity, rollback and disaster recovery.
195. Only one criterion had an 'Amber' status. The 'brief for decision' dated 14 March 2010 (with reference number CR002396) (**Annexure 25**) with the subject 'Business go-live for the QHIC LATTICE Payroll Replacement Program' noted that this criterion related to a conflict involving McAfee virus protection software contained on the servers hosting the Solution which resulted in SAP application performance issues. After investigation and further testing by QH technical staff and QHSSP staff, the removal of the McAfee VirusScan anti-virus software resulted in performance deemed suitable for production use. It was noted that the virus protection would be re-established once the performance issue had been resolved. Advice provided to the Board by the Project Directorate was that this represented a low risk as the servers were located within the QH network that had a high level of security. The Board accepted this risk.
196. The Board agreed to commence activities associated with business go-live and that the Project Directorate and Board members would teleconference at 7am on Sunday 14 March 2010 to get an update on cut-over activities and subject to this give approval to complete transition into business go-live.

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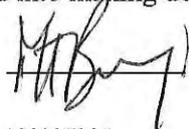
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197. I recall during this meeting that Mr Kaliminios went around the table and asked each person at this Board meeting whether they agreed with the go-live decision. I responded 'yes' from CorpTech's perspective and that, taking into consideration all the evidence provided to the Board, I considered that the Solution was ready to 'go-live'. I recall that Mr Shea was satisfied with the build and status of the Solution. Mr Doak expressed confidence that the Solution was ready to go-live. Mr R Brown (Chief Information Officer, QH) attended this meeting and agreed with the go-live decision on the proviso that further testing to be done over the weekend (13/14 March) to ensure the Citrix mitigation was successful. The Board noted that the Solution was on track to go-live on Sunday, 14 March 2010. The other participants at the Board meeting were also asked to express their view on go-live readiness and to my recollection there were no dissenting views.

10.10 Board Teleconference of 14 March 2010 (CCMB 596):

198. The Project Directorate met at 6am to review the status of activities and review the agreed criteria for go-live.
199. The teleconference of the Board with the Project Directorate took place at 7am. The Project Directorate advised the Board of their recommendation to proceed to business go-live based on the mitigations being in place for Citrix and all other criteria for go-live having been met. Mr R Brown indicated that he had been advised by his staff that the mitigations for Citrix were appropriate. The Board was advised that further volume testing of the throughput of the QH Citrix server would occur at 4pm on 14 March 2010 once QHSSP users were operating in the Solution. In the unlikely event that performance was determined to be unacceptable then advice would be provided to Board members with recommendations to resolve any identified issues.
200. Based on this the Board approved the business go-live, resulting in users across QH being given permissions to use the Solution for the rosters and the pay processing.
201. Based on my assessment, the discussions at the Board meetings, the views of Mr Burns the independent Quality Assurance Advisor and the views of key CorpTech staff (Mr Hood, Mr J Brown and Ms Stewart) I had confidence that the Solution was ready to go live, that the technical environment was appropriate to meet the user profile requirements of QH as specified at that time and that it would deliver a working payroll system for QH.
202. It did not occur to me at the time nor do I presently consider that the authors of the reports were telling the Board what it wanted to hear to ensure go-live went ahead. The Board was not rushed into making decisions, as is demonstrated by the many occasions when

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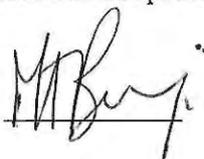


- delays/deferrals were approved. The Board was conscious of the need to deliver the business outcome for QH (ie. deliver a working payroll solution for QH) and manage the complexities of the Project through to delivery.
203. There were certainly time and cost pressures throughout the Project but the common goal of producing a working payroll system outweighed those pressures. Given the complexity and history of the Project before I commenced in CorpTech, it was not unexpected that at various times there would be tension and stress in the relationships between the parties.
204. I was aware and I believe everyone else on the Board was aware that it was not a matter of just having the Solution go live and that would be the end of our responsibilities. I was well aware of the implications should the Solution fail to get the pays to the bank for QH employees.
205. CorpTech also assumed responsibilities after go-live and we did not want to inherit a system which was unsupportable.
206. On 13 July 2010, in an appearance before 'Estimates Committee A – Public Works and ICT' (**Annexure 26**), Mr Grierson indicated that had he been provided with the reports associated with the 12 and 14 March Go-live decision, including Mr Burns' report dated 12 March 2010 which provided (quoting from Hansard) 'Training, data conversion, user acceptance, business readiness – all Green, ready to go live'. He states that he would have said 'go live'.

10.11 Understanding of QH Internal Processes

207. Throughout the period leading up to go-live, the Board relied heavily on the advice of the QHSSP, Mr Burns and QHEST that the business readiness, the data migration and the capacity to undertake the roster and transaction processing across QH was satisfactory.
208. I took advice from QH employees Mr Kalimnios, Mr Shea, Mr Price, and Ms Jones that the development of the Solution was in accordance with QH's internal business requirements.
209. My understanding of QH's organisation of the payroll system prior to go-live was that each QH regional centre had its own roster and payroll operators. I was not aware prior to go-live of the extent to which QH had centralised the payroll system processing or of the potential impact that the payroll business model change may have when coupled with implementation of the Solution.
210. If I had understood the extent to which the Solution was to be implemented in the significantly changed centralised payroll processing environment, I would have likely investigated further on the QH business readiness front before making the key business go-live decisions, however given the assessments provided by Mr Burns and Mr Price this was not raised as a concern.

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10.12 Practical Considerations

211. In addition to the results obtained from the Solution verification processes, there were a number of other factors which I took into account when considering and determining the go-live decision. They were:

- a. **Timing:** When it became clear that the Solution would not go live in December 2009, the Project Directorate was asked to explore options for go-live date deferral. There were few time periods in 2010 in which the Solution could go-live. QH advised that January 2010 and February 2010 was not a viable period due to processing of QH staff recruitments (new hires) and the high numbers of staff movement and this required a stable payroll system to ensure that the new staff could be processed onto the system and changes in personnel in business units across the State could be processed. March 2010 was an acceptable period for QH. A delay to going live beyond March 2010 would have meant that the next window would likely be June/July 2010. April and May were unsuitable because to apply the relevant legislative changes into the Solution is a 3 month body of work. It would not have been possible to go live in April or May 2010 and have the system compliant by 30 June 2010. The June/July 2010 period was also very problematic given the volume of end of financial year activities undertaken by QH's payroll (eg. production of annual employee payment summaries). Additionally, further work would have needed to be done to apply the SAP notes and changes into the Solution to ensure that it was legislatively compliant from 1 July 2010 before go-live. The Board considered go-live in June/July to be a high risk option. If go-live was not possible before 1 July then there was a requirement to make changes into LATTICE, which was an undesirable alternative.

After June/July 2010, the next likely window for implementation of the Solution was August/September 2010 after all the end of financial year processing was completed. Additionally, further work would have needed to be done to apply the SAP notes and changes into the Solution to ensure it was legislatively compliant from 1 July 2010. Six months is a very significant time to keep the deployable system frozen, where changes are not made.

- b. **Cost:** In May 2009, IBM informed CorpTech that each month of delay would potentially cost them \$1 million. The objective of CR184 (Annexure 3) was to

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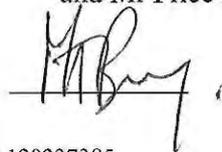
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cap the costs of the development of the Solution and to avoid any further cost payments to IBM. If go-live were delayed at QH's request, it was likely to cost the State a minimum of \$1 million per month, as the prospect of negotiating this down with IBM was, in my view, slim.

In addition, with every extension of time the continued allocation of QH and CorpTech resources was adding considerable cost to the Project and securing ongoing funding presented a challenge.

- c. Personnel: Skilled contractors from IBM, CorpTech, SAP and QH were scheduled to transition at the end of the Project. Given the various go-live deferrals there were numerous key personnel changes from time to time and this would definitely increase if the Project could not make a March 2010 delivery. I can recall discussing in and around June 2009 with Mr Price, Ms Jones, Ms Stewart, Mr Hood and Mr J Brown that morale and confidence in getting a workable payroll system among their teams was declining with each deferred go-live date. Confidence and morale improved with the complete run of all UAT scripts which identified all the errors so a list of all changes required before go-live could be agreed. This then allowed the tracking of the rectification of defects, building confidence in the functionality of the Solution. When it was determined that go-live would not be in 2009, maintaining a focus of getting a deployable Solution by the end of 2009 kept the momentum going. A loss in further expertise in the ongoing Solution's development would have presented a problem in 2010.
- d. Enterprise bargain determinations by IR Commission: The Board was aware that QH was negotiating a new enterprise bargain (**EB**) with nurses. The EB determinations would need to be incorporated into the Solution regardless of the go-live date. QH had a commitment with the unions to apply the EB determination as soon as was practical. The concern was that, should the EB determinations be required to be included into LATTICE because the go-live was further delayed, there was a high risk that some of the determinations may not be able to be incorporated given the configurability and fragility of the LATTICE system. QH wanted to avoid this if at all possible.
- e. LATTICE: I can recall that there was discussion at the Board where Ms Jones and Mr Price from QH expressed concern that the LATTICE system and all of

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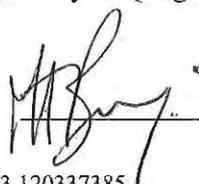
the off-system components and work activities were very challenging and that delivery the pays for every pay cycle presented challenges. There was a real risk of the LATTICE system and associated transactional processing by the QHSSP failing if no replacement system was implemented at some point in near future and therefore not being able to deliver pays to QH employees.

212. I do not recall loss of vendor support for LATTICE motivating the go-live decision. CorpTech had the skills in-house to support the LATTICE system and had in fact done so from October 2008. Mr Hood, Program Director Service Management in a briefing note to me in February 2009 indicated that CorpTech had taken on this responsibility in October 2008 and that we had the capability to service this requirement for QH. However, the LATTICE software and the technical environment that it resided on did present high risk in terms of business continuity.
213. Whilst these were real considerations to be taken into account they did not influence the Board to ignore the risks associated with the introduction of the Solution before it was considered to provide QH with a working payroll solution and able to be supported by CorpTech once introduced.

11. Why Costs Increased over Time

214. I consider the original estimate of in the order of \$6M over a period of 6 months for a Project of this complexity was a gross underestimate.
215. In my opinion, the total cost of the Project exceeded the initial contract price chiefly because the business requirement specification was at a high level and did not contain sufficient detail, and IBM had used this as the basis for their pricing.
216. This factor, in addition to those mentioned in paragraphs 20(q), (r), (s) and (t), 30 to 34, 59, 155, 209 and 210 above, and 228, 229, 230, 231, 232 and 233 below all contributed to the increased cost of the Project.
217. Further, it became apparent after go-live that QH had not transitioned all of the data from the old system into the new system and this contributed significantly to the post go-live problems which were experienced. At one point several weeks after go-live, I discovered for the first time that there was a backlog of some 40,000 transactions within QH which had not been put into the system, which had never been previously discussed at the Board.
218. In addition, the fact that the Project amounted to taking a whole of Government system and applying it only to QH gave rise to a number of technical issues, including the need for a

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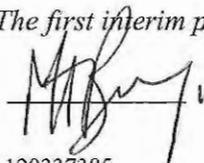
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revalidation of each user's security for every transaction before it would process. This took an inordinate amount of time and was part of the reason for the system performance issues.

12. RollBack and Post Go-Live

219. A strategy to revert back to the LATTICE system (*Rollback*) should the Solution fail was developed by QH from the outset of the Project and handled by the Project Directorate from April 2009. The cutover management plan incorporated the development and approval of a business continuity plan, rollback plan and the disaster recovery plans all of which were key to ensuring that there was a reversion or recovery approach should the Solution fail. These plans were reviewed by the Project Directorate. The actual plans were never considered by the Board. The Gate 3: Report (CCMB 593) considered on 12 March 2010 by the Board (CCMB 592) indicated status as 'Green' and completed.
220. As I understand it, implementing Rollback was only possible during the period of processing leading to the first payday (between the point of go-live and the first payday). Given the complexity and size of the QH payroll (paying approximately 80,000 employees) and the significant numbers of transactions processed each fortnight (in the order of 200,000) once the first pay had been successfully processed it would not be feasible to revert back to the LATTICE system.
221. A catastrophic technology system failure would have initiated the Rollback strategy, which would have also included consideration of how to get a payment file presented to the bank. In the event that the Solution was able to produce a pay file (*Interim Pay File*) generated by the Solution during the first pay cycle then this would have been sent to the bank. If the Solution failed before an Interim Pay File was produced then the last LATTICE pay file would have been sent to the bank so employees would receive a pay. The variability and complexity of QH's pays meant that consecutive fortnightly pay files were rarely identical and using a previous version would have resulted in significant pay deficiencies and errors. Correcting these errors in LATTICE would have been extremely difficult as it is incapable of processing retrospectively. Any corrections would have been a manual process by the QHSSP.
222. A catastrophic technology system failure did not occur and the Solution initially performed as the testing had indicated it would perform.
223. The email I received on Wednesday, 17 March, 2010 (CCMB 608) from Ms Du Plessis, the QH Project Manager, following the first interim pay run on Tuesday, 16 March reported as follows: *'The first interim payrun was successful with only a few data-related errors. There is*

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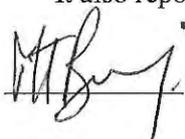


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a daily meeting with all relevant stakeholders to review the overnight pay run results and identify potential improvement opportunities before the final pay is run... There are currently 15 functional queries logged with the CorpTech help desk. Included are 3 relating to the Workbrain performance issues and the others all of Medium Priority rating.

224. The Post Go-Live Update No. 1, dated 19 March 2010 (**CCMB 615**) from Mr Hood, Executive Director, Service Delivery, CorpTech, (*Update*) showed that there were some technology system issues and these were resolved as quickly as possible. There were 2 related incidents in the WorkBrain component of the Solution which impacted the speed of data processing within QHSSP processing hubs. Both related to when the user reviews, updates and publishes rosters. The business impact reported was that not all rosters may be published with all adjustments prior to the final pay run, resulting in an incorrect payment for some employees. A number of activities were undertaken to provide interim solutions to the WorkBrain performance issue, such as database reindexing, and QHSSP security reassignments and these did somewhat improve system performance. The Update reported that while SAP provides a mature and feature-rich performance management toolset, limited capability to monitor the WorkBrain application is available, and that IBM and CorpTech were investigating how to improve this.
225. The Update stated :'*Considering the size and complexity of the QH HR Solution, the number of technical incidents and problems identified since go-live has been small and there have been no Severity 1 issue which would necessitate consideration of a Rollback to the LATTICE – ESP environment*'.
226. QH had contingency resourcing in place to mitigate how to handle the expected increased workload and initial processing for the new Solution. The advice, as set out below, from QH was that the first interim payrun had been successful.
227. In relation to the first fortnightly payrun, on Wednesday, 24 March 2010, there was no evidence of the extent of the problems that emerged over the coming weeks:
- a. The email dated 22 March 2010 from Ms Jones (**Annexure 27**) reported that whilst some of the jobs in the interim payrun went longer than expected (beyond the PPV estimates) they were all executed. It reported, however, that due to the increased lock-out-time where the Solution was unavailable to QHSSP staff and QH users, there was less time for the QHSSP to complete the manual correction of transactions or to complete new transactions processing. It also reported that some interface errors were experienced but these related to

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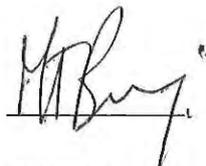
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employee data errors and were being investigated, and that the impact on the actual payroll of QH was not an issue and that corrective action was being taken by CorpTech and IBM to ensure the individual payments are corrected.

- b. At the Board meeting on 19 March 2010, Mr Hood (Executive Director) (**CCMB 614**), from CorpTech advised that WorkBrain had a down-time of approximately 2 minutes on 18 March 2010 which was resolved by a system re-boot, however this had an approximately 45 minute impact to the QHSSP and some of their work was lost and had to be re-entered.
- c. At the Board meeting on 29 March 2010 (**CCMB 622**) Ms Jones provided an update indicating that a small number of staff were not paid, however these were not system-related issues but data entry related or employee record data issues. Casuals were the main group of staff affected and these staff had been paid via ad-hoc corrections. A further analysis and briefing on this issue was to be provided to Mr Shea. Mr Kalimnios highlighted that the biggest issue from staff was the inability to see their roster in WorkBrain and the issue of being locked out. IBM and CorpTech were working to resolve that issue as a matter of highest priority.

228. The LATTICE system had no retrospective processing capability, so the QHSSP would calculate the pay amount and enter this payment for processing. This is not the case within the Solution. The mantra that QH sent out to all managers and supervisors prior to go-live was 'no roster then no pay'. In the case where a roster change occurred towards the end of the pay period, this would require a number of transactions to be processed. Firstly the person who was rostered on who was unable to work would need to have that change processed. The person who was called in to work would need to have a transaction completed so they would be paid. WorkBrain would only be able to deal with persons who had an employee record in the SAP system, so if a new casual was working then a 'new hire transaction' would need to be processed in SAP before a roster adjustment was able to be completed. Once the roster change was accepted then it would be automatically processed by the Solution.
229. If the roster change was not input into the pay period to which it related, then SAP's retrospective processing automatically occurred when the transaction was finally input. This would be seen by SAP as a prior-period adjustment and SAP would do the work to ensure that the person who did not work had their pay reduced appropriately.

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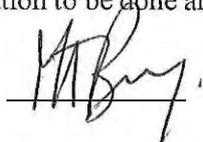
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230. In some instances the date of effect for a transaction (eg. a roster change, a higher duties allowance, a leave notification, all of which had pay amount impacts) could relate to pay periods many months in the past. SAP would apply this transaction to the pay period involved and then it would automatically perform adjustments as needed by examining each subsequent pay period until the current pay period. This had the potential to reduce an employee's pay without notification and was not in accordance with the QH agreement with unions. It has become apparent that QH did not fully appreciate the impact of SAP's retrospective processing.
231. The payslip produced by the Solution showed each and every adjustment and was seen by QH staff as being very complicated and confusing. For some employees a payslip was multiple pages. The LATTICE payslip was simple as it showed the manually calculated total and little else.
232. I was not made aware by QH until after go-live of the agreement it had with relevant unions that time worked up and including the Sunday night before the payday Wednesday would be paid on that Wednesday payday. The QH members on the Board would have understood this and made additional resourcing available to deal with it. Nevertheless, meeting this QH business requirement presented an enormous challenge for QHSSP staff and QH line managers to complete the rosters and the processing of all the required transactions in time.
233. In my view, the extent of resourcing required was under-estimated by QH and this added to the challenge of processing the transactions on time. QH required that IBM/CorpTech turn off the automatic SAP retrospective processing where it resulted in the reduction in the pay amount and this was not able to be achieved for some time after go-live. This potentially meant that the rostered staff member was overpaid, the replacement staff member not paid, and some staff received reduced pays as a result of the retrospective processing being applied, as the transactions notifying the system of this were not able to be input in current pay period processing.
234. In my view, the Solution is a superior system for QH to the LATTICE system as the applications themselves are functionality rich even though all of this was not 'switched on' in the QHIC implementation stage of the Solution. This solution was envisaged by QH as the 'first stage' of their HR/payroll system reform, with subsequent stages being the introduction of more employee self-service functionality. LATTICE does not have this functionality. LATTICE is unable to perform retrospective data processing and requires a manual reconciliation to be done and then the data input into the system.

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235. SAP is also a rules-based system which means that unless the data input matches SAP requirements, the transaction is rejected and does not continue. Similarly WorkBrain will not accept rosters unless they conform to the system's internal cross checks. These represent important step-by-step safeguards to protect the integrity of the data being inserted into the system. LATTICE is not a rules-based system and therefore does not have the same level of safeguards.

13. Whether Work was within the Scope of the Contract

236. I was guided by the Contracts Team's advice that there was legal advice that supported the contention that there was little that could be done by CorpTech to refute IBM's contention in terms of 'out-of-scope' given the level of specification of QH business requirements and the fact that it had been accepted by QH and CorpTech as a deliverable of the contract.

237. In my view, a number of the items such as 'wage types' should have been covered under the awards and allowances as these are part of delivering a working payroll system for QH. A more detailed specification of the QH awards and allowances should have been part of the business requirements development. A significant workshop was undertaken during the Project to get these defined, but it was too late in the process and as a result IBM did not take this into account in the original build of the QHIC solution. Given the complexity of the QH awards and allowances, in my view, it was not reasonable for IBM to have expected that every detail of awards and allowances were included in the business requirements, therefore an allowance should have been made for this by IBM in estimating the cost and efforts involved. IBM has indicated that there are over 20,000 legitimate combinations of award and allowances available within the Solution. As a result this has allowed IBM to argue that these changes are 'out of scope'.

238. Another example is the interface to the finance system. In my view this should have been picked up by QH or IBM in the review of the business requirements before they were accepted. I view it as surprising that this critical interface was not identified in the business requirements. As has been previously discussed, there were a number of subsidiary systems and processes in addition to LATTICE used in the delivery of pays. I would have thought that IBM should have prompted QH to ensure that all interfaces were identified. However given that it was not included, it was deemed by IBM an 'out-of-scope' item.

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14. QH's Participation in Decisions

239. I can only address this from 6 February 2009 when I joined CorpTech.
240. Mr Kalimnios on occasion indicated his frustration in CorpTech not being able to manage the Contract and call IBM to account. He expressed the view that if QH had control of the Contract, things would be different. He indicated that he had terminated a contract before due to non-performance. He acknowledged that the situation in August 2009 was different and difficult, that the opportunity to pull out of the Contract had likely passed and that we now had to get the system implemented and get IBM out of the door. The email trail 17 and 18 August 2009, between Mr Kalimnios, me and Ms MacDonald (CCMB 290) (Annexure 6B) shows some of the relevant exchange.
241. QH was actively engaged throughout the Project, especially in relation to change requests that were raised to incorporate additional requirements into the system.
242. All change requests were documented and, in cases where additional payments were required to be approved, the process could take many weeks/months depending on the negotiation and approval chain required. All change requests required authorisation from QH and CorpTech before progressing to approval.
243. I believe that I engaged with Mr Kalimnios, Mr Shea and other relevant members of the QH team on every important matter which impacted the progress of this Project. I escalated issues to them on each occasion when I considered it appropriate. The extensive and protracted progress of CR184 (Annexure 3) involved QH in every step of the way, as the document trail shows. QH contributed to the payments associated with CR184 and this was achieved by agreement, not by dictate.
244. The Board minutes and subsequent meetings of the key players show that there was genuine engagement with QH.
245. The Director General DPW and ADG communicated regularly with their counterparts in QH.
246. I am of the view that during my tenure, QH did have a genuine voice and that this was not only heard by CorpTech but that CorpTech took appropriate positive action to address QH's issues and concerns wherever possible.

Signature:



Witness signature:



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Declaration

This written statement by me dated 8th April 2013 and contained in the pages numbered 1 to 55 is true and correct to the best of my knowledge and belief.

Signed at MARGARET DEGENYE Signature MtDegenye
BRISBANE this 8th day of April 20 13

Witnessed:

BROOKE ADELE MARSHALL Signature BDMarshall
Name _____

Signature:



Witness signature:





**QUEENSLAND HEALTH PAYROLL SYSTEM
COMMISSION OF INQUIRY**

Annexures to Statement of Witness

Items to be annexed to the statement of Margaret Berenyi taken on 8 April 2013:

Volume 1 of 1

Date	Annexure No	Document Description
22 November 2007	1	Executive Council Minute no. 1136
Undated	2	SOW 8 Lattice Replacement Design, Implement and Deploy, Version 2.0 (Updated 13 March 2009)
30 June 2009	3	Change Request (CR) 184 (with handwritten figure of \$9,000,000)
2009	4	Queensland Government Methodologies Project Management Methodology 2009 Release 3.0
16 July 2009	5A	Board Meeting Minutes
21 July 2009	5B	Associate Director-General (ADG) Briefing Note to Natalie MacDonald
1 July 2009	6A	Email from Margaret Berenyi to Bill Doak
18 August 2009	6B	Email from Margaret Berenyi to Michael Kalimnios
25 March 2009	7	Email from Margaret Berenyi to Mal Grierson
5 May 2009	8	UAT Recommendation from Project Directorate Meeting (Phase 4 of UAT)
5 May 2009	9	UAT Entry Criteria for QHIC – Status as at 5 May 2009

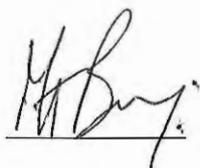
Signature:

Witness signature:

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18 June 2009	10	Board Meeting Minutes
14 July 2009	11	ADG Briefing Note – Queensland Health (QH) LATTICE Payroll Implementation
9 June 2009	12	Email from Margaret Berenyi to Natalie MacDonald
10 June 2009	13	Email from Bill Doak to Margaret Berenyi
25 June 2009	14	Letter from Natalie MacDonald to Bill Doak (with hand-written note)
2 November 2009	15	CR 202 (with handwritten figure of \$1,850,000)
30 June 2010	16	CR 220
1 February 2010	17	Brief for Decision and GATE 1: Approval to proceed with Technical Cutover – Board meeting 1 February 2010 (including "Cutover Preparation 1 of 2" and "Cutover Preparation 2 of 2" pages for CR206 delivery and handwritten circle around "Approved" on Brief for Decision)
Undated	18	GATE 2: Approval to proceed into Business Cutover (including "Additional Points Raised by Advisors" page)
24 February 2010	19	GATE 3: Approval to Proceed with Business Go-Live – Simulation 2 (with handwritten date of 24.02.2010)
Various	20	Work Product Acceptance Sheet – Work Product 3.15d PPRT Test Completion Report
21 January 2010	21	Project Directorate Meeting Minutes
2 March 2010	22	Brief for Decision- Recommendation to Commence with Cutover Activities (with handwriting "Replaced as per email 2.03.2010)
26 February 2010	23	Briefing Paper – Pay Cycle Validation 2, Version 3.0
27 February 2010	24	FiHR QHIC Infor GoLive Check Response
14 March 2010	25	Brief for Decision – Business Go-Live for the QHIC LATTICE Payroll Replacement Project (with handwritten "CR 002396" and signatures of board members)
13 July 2010	26	Hansard Report: Estimates Committee A – Public Works and Information Communication Technology
22 March 2010	27	Email from Janette Jones to Bill Doak, Mark Dymock and James Brown (CC: Paula Dan, CSD Secretariat, EDCS Admin and Emma Bailey)

Signature:



Witness signature:

