



**QUEENSLAND HEALTH PAYROLL SYSTEM
COMMISSION OF INQUIRY**

Statement of Witness

<i>Name of Witness</i>	Natalie Margaret MacDonald
<i>Date of Birth</i>	██████████
<i>Address and contact details</i>	████████████████████, VIC
<i>Occupation</i>	Vice President Administration, La Trobe University
<i>Interviewing officer</i>	Jonathan Horton
<i>Interview date</i>	3 April 2013

I, Natalie MacDonald, state;

Background

1. I am currently employed at La Trobe University in Melbourne as Vice President Administration at La Trobe University. I commenced in that role on 24 September 2012.
2. I have a Bachelor of Arts, a Master of Business Administration and a Master of Commerce (Professional Accounting).
3. I was also employed within the Queensland Government in various positions during the period 1999-2004.
4. I was previously employed by the Queensland Government in the following positions:
 - (a) Director General of the Department of Housing for the period 2004-2009;
 - (b) Associate Director of the Department of Public Works for the period from May 2009 to July 2011; and
 - (c) Director-General of the Department of Public Works for the period from April 2011- August 2012.
5. Prior to employment in these roles I was the General Manager, Corporate and Executive Services at the Department of Housing, and prior to that the Director Planning in that

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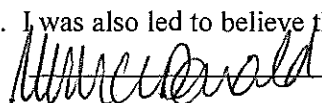
Department. Prior to this, I was the Manager, Ambulance Subscription Scheme and Director, Commission of Inquiry Corporate Development at the Queensland Ambulance Service in the mid to late 1990s.

6. I left the Queensland Government public service in August 2012.
7. I was the Director-General of the Department of Housing at the time the new HR solution was rolled out to that department. I did not have detailed involvement in the rollout of the HR system. There were some issues that I was aware through the advice of my General Manager of Corporate and Executive Services but as I recall these were largely around cultural challenges of preparing staff and managers for a substantially different HR system (ie the new SAP system).

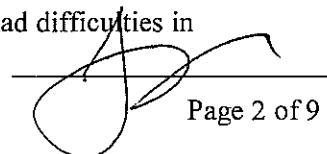
My role at the Department of Public Works

8. During my role as Associate Director of the Department of Public Works I reported to Mal Grierson and operated as part of his senior management team. My responsibilities as Associate Director included oversight of CorpTech from around mid-May 2009. There were a number of other complex units with significant projects reporting to me during this time. I later replaced Mr Grierson when I became Director-General of the Department.
9. I was given two briefings relevant to the Queensland Health payroll project within CorpTech upon arriving at the Department of Public Works in May 2009. The first was from Mr Grierson, who told me about the progress of the project to date and that a due diligence investigation that had been performed when CorpTech was transferred to the Department of Public Works from Queensland Treasury. Mr Grierson explained issues that had arisen in how the project had been managed and the actions taken to scale back IBM's involvement with the CorpTech program and the negotiation process with IBM. It was clear on my arrival that there was a strong desire to see this project completed to ensure Queensland Health had a stable HR platform.
10. Margaret Berenyi also gave me a briefing about some of the challenges they had been facing with the Queensland Health project. Those issues included the contract not being as detailed as it should have been and consequent difficulties in measuring performance and delivery against the contract. Other challenges related to management of IBM and the relationship with Queensland Health, which Ms Berenyi told me had been difficult. The relationship difficulties with Queensland Health seemed to arise because there was confusion about roles and responsibilities. I was also led to believe that Queensland Health had difficulties in

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understanding its payroll business and articulating its requirements. Margaret made me aware of the work she and her team were doing to address these issues. I believe I received a briefing note from CorpTech outlining a range of issues in the history of the project including flagging negotiations between IBM and the Director-General which were still being finalised as I arrived in the Department.

11. I believe that I was much more involved in the management of CorpTech and relevant projects within Public Works than was previously the case in the department. I believe I was as active as I could be in relation to CorpTech and the Queensland Health payroll implementation, given the breadth of my responsibilities and the level of senior engagement from Queensland Health and CorpTech on the Queensland Health payroll project. I met with Ms Berenyi weekly to be kept apprised of progress on key projects (including the Queensland Health payroll project) and key issues.

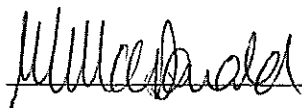
Briefings with Mr Grierson and Ms Berenyi

12. On arriving in the Department, I initiated weekly briefings with Mr Grierson once a week to brief him on key and emerging issues across my portfolio and to seek his advice on direction. We did not do a lot of written briefings because things were moving fairly quickly on a number of projects. I kept him informed at all times on the Queensland Health payroll project, among others, including date changes, IBM and Queensland Health relationship matters and progress challenges.
13. I also initiated weekly meetings with Ms Berenyi to be kept informed of the progress of the project and so that I could be alerted to key issues. It was my impression that the project experienced many challenges including changing business requirements from Queensland Health along the way. On occasion, Ms Berenyi provided short written updates, on other occasions, she provided verbal updates. On occasion, Ms Berenyi would bring Mr James Brown with her to advise/update on contractual matters relating to IBM.

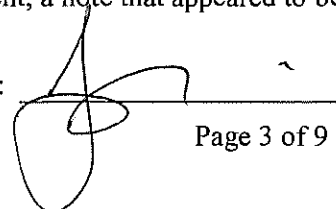
Change request 184

14. Immediately prior (13:53pm) to my interview with the Commission on 3 April at 2pm I was provided with a range of documents on which to comment. These were a series of change requests that had been developed prior to my time at the Department, a note that appeared to be

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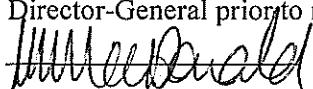
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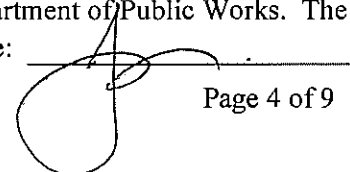
developed in CorpTech before the development of CR184, and CR184 itself (Annexure NM-01).

15. Until this interview, I had not seen any of the documents, except CR184, since the relevant events in 2009. I had not any of the other change requests referred to in this interview. Whilst CR184 was provided to me on its own it would have been sent to me with a covering briefing note making a recommendation as was the practice and continued to be the practice during my time at the Department of Public Works. No briefing note was sent to me as part of the pre-interview process. I have now seen further documents, including a briefing note to the Director-General Mr Grierson (1211/09) together with a draft letter. This document appears to have been produced between the 9th and the 15th June, and appears to have been the briefing note for CR184. I will refer further to this document below.
16. I was advised by Mr Horton that the documents relating to change requests 129, 174, 177 and 179 include a 'condition 'precedent' relating to further testing of WorkBrain and that this was not included in CR184.
17. As mentioned above, I have now been shown documents relating to CR 184, including a briefing note. I have also been shown a letter signed by me dated 25 June 2009 and addressed to IBM communicating the "offer" contained in change request 184 (Annexure NM-02).
18. I have been asked to comment on why the condition precedent regarding testing of WorkBrain that was contained in the previous change requests is not in change request 184. It has been put to me by the Commission that change request 184 involved the State giving up some of the gains made, or rights held, against IBM in relation to its performance. This suggestion was a complete surprise to me and one that has not been raised with me.
19. At the time I signed CR 184 I had only been within the Department of Public Works for approximately six weeks. I relied heavily on advice from CorpTech about what was necessary to get the project moving and for technical and contractual advice in relation to this ongoing project. I do not recall receiving any advice that CR 184 relinquished any rights the State may have against IBM.
20. It is my recollection that this change request came directly out of the substantial renegotiation of the role of IBM in both the Health Project and the overall CorpTech projects which were negotiated by the Director-General prior to my arrival at the Department of Public Works. The

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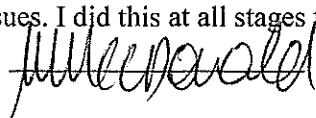
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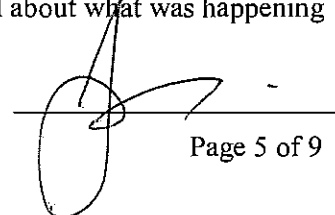
renegotiation of terms and conditions was not something I was involved in and in the normal course of events would not get involved in down to the detail of clauses and detailed conditions.

21. I have now had the opportunity to review the relevant documents, in particular, Submission to the Director – General 1211/09 with draft letter attached (Annexure NM-03); the letter of 25th June; and Submission to the Associate Director-General I462/09 (Annexure NM-04). There is, consistent with my memory of the events, no concern expressed about conceding any previously-acquired tactical contractual advantage, particularly relating to a condition precedent.
22. Submission 1211/09 refers on p3 to a meeting between representatives of Queensland Health, CorpTech and Mr Doak of IBM – from the following letter this appears to have occurred on the 9th June. These appear to be the negotiations which led to the following correspondence and CR184.
23. The factors that were relevant to change request 184 were:
 - (a) this was the contractual documentation and resolution as I understood it, to a longer term negotiation which had already occurred prior to my arrival;
 - (b) a strong desire by all parties to move forward to get the Queensland Health solution implemented in the light of concerns about the Lattice system's ability to keep functioning; and
 - (c) coming off the back of what I believed from both Ms Berenyi and Mr Grierson to be a full review of the way IBM was operating and needed to operate in the future, and the development of stronger collaborative relationships between the 3 parties.
24. My attitude was not to push on irrespective of what was ahead; in fact, the several delays to go-live are testament to this. I relied on the advice of CorpTech and through Ms Berenyi, the Project Board, staffed by what I perceived to be highly skilled and senior managers in both Queensland Health and CorpTech, backed up by Health Internal Audit and an External Quality Assurance Advisor employed by Queensland Health. I was also comforted by the fact that the project had undergone a due diligence process by the Department of Public Works before I arrived and that steps had been taken to resolve some of the issues, evidenced in the briefing note I received from CorpTech.
25. I consulted with Mr Grierson about CR 184 and kept him informed about what was happening and particular issues. I did this at all stages through the project.

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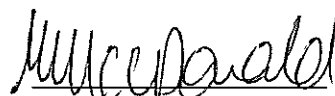
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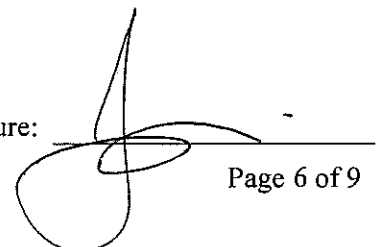
Results of user acceptance testing

26. I have been asked by the Commission to comment on what I knew of User Acceptance Testing changes and to reflect on whether I knew that UAT reclassifications were occurring regularly by the Project Board.
27. I was kept aware of user acceptance testing and the summary of what was happening by Ms Berenyi through the course of the project. I recall being briefed that there were a number of issues and that these seemed to be worked through at Project Board meetings. I was made aware of the defect classification system by Ms Berenyi.
28. I also recall being made aware that the Project Board was particularly focusing on pay related defects as a high priority at the final stages of the project. I do not recall being aware that there were multiple revisions of defect classifications throughout the course of the project. I do recall Ms Berenyi specifically advising me of the review the Project Board was undertaking on the analysis of pay related defects at the closing stages of the project. I cannot recall a specific discussion about downgrading of classifications but more around a review of classifications. This seemed reasonable to me at the time given a) pay related matters appeared to be critical from the advice I received and b) the Project Board, assisted by external assurance advice and Health internal audit, seemed best placed to undertake this review.
29. I believe I did receive a briefing note from Ms Berenyi in the weekly meeting I had with her when she advised me on the review of defects.
30. I was not aware that the reclassification of defects was an ongoing or regular occurrence.
31. I thought at the time it seemed reasonable for the Project Board to take the steps advised to review the defects because of the continued need to deliver the Queensland Health payroll. I had not been provided with any information which suggested that this would have been an unreasonable thing for the Board to do.

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32. It has been put to me that there were a number of instance of defects being reclassified by the Project Board. However, I did not sit on the Board and would not have been aware of those actions.

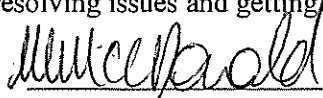
Change request 202

33. I have been shown documents relating to CR 202. It appears this change request involves a payment of approximately \$1.85m to IBM.
34. It is my recollection that I was provided with a Briefing Note by Ms Berenyi that outlined an additional change request (202) which had already been agreed by Queensland Health at the time it was presented to me. The briefing note summarises the need to extend the time of the Project to March and as I recall on questioning the approach, the funding was effectively to keep the program and resource teams together although this would need to be confirmed by Ms Berenyi. The briefing note, as provided to me, implies that the delays were at least in part attributable to Queensland Health.
35. By this time, I would have been aware, through my interactions with Ms Berenyi, that there had been a series of to-ing and fro-ing between Queensland Health and IBM over months about requirements and what needed to be included.
36. I recall questioning the Briefing Note and on advice that Queensland Health was happy to fund the additional delay and the Project Board supported the approach, I saw no reason not to, as the delegate, sign the Change Request prepared.

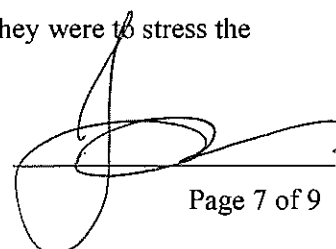
Dealings with IBM

37. I was in the United States on Housing related business looking at homelessness initiatives and I did not have any business discussions with IBM in the United States.
38. From time to time towards the end of the project I met with the IBM Project Director, Bill Doak, maybe twice or three times. These meetings would have been at the request of Ms Berenyi, who I believe was present at those meetings. As I recall, they were to stress the importance of resolving issues and getting the project delivered.

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39. The meetings were in the context of the general pressure on IBM to get defects resolved and resource the project adequately. My concern was to ensure IBM was putting enough resources into resolving issues and doing everything it could to manage the project to delivery.
40. At all stages through this project I kept Mr Grierson informed of key issues. I was aware of CorpTech frustrations with both Queensland Health and IBM and whilst there were issues with IBM, there were also issues with Queensland Health, from what I was advised. Mr Grierson, from time to time met with more senior representatives from IBM and I kept him informed through my weekly meetings and provided additional material if I was advised when he met with IBM. I do not believe IBM was in any doubt as to how important it was to manage this project to implementation.
41. I believe every effort was made to continue trying to manage this project (by all parties) in the least combative way possible so that a solution could be delivered. I was advised that there were serious concerns about the ability of Lattice to continue providing a solution for Health and creating an extremely adversarial or legal environment with IBM at these later stages did not appear, with the information I had available to me, to be conducive to achieving a solution.
42. I discussed these matters with Mr Grierson on a regular basis, and given the issues that appeared to be on both sides (the State and IBM), and Mr Grierson's extensive experience in the ICT industry, he did not advise me of any stage of an alternative view.
43. In spite of the difficulties, I believed that a huge amount of effort was being put in by Queensland Health, CorpTech and IBM to work on the issues in the project. It was not the case that the parties were not trying to resolve the issues.

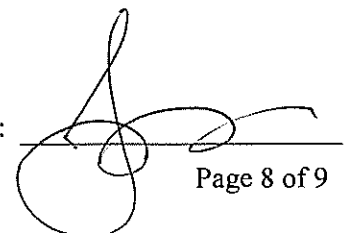
Post go-live

44. After go live a number of issues emerged including:
- (a) a significant number of staff not getting paid or paid incorrectly;
 - (b) some early slowness in the system;
 - (c) rostering solution being clumsy for staff in health to use; and
 - (d) poor training and consistency of processes in health.

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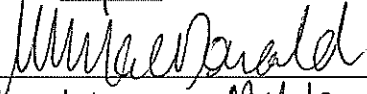
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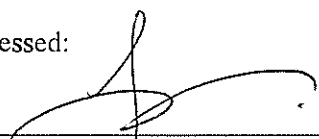


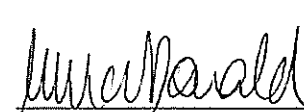
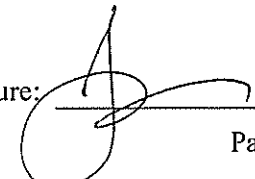
- 45. Advice that I received over the long periods of trying to resolve issues is that the causes of these issues were attributable in joint measure to the parties involved and not exclusively to IBM. The Queensland Audit Office went on to produce a public report exposing some of the State weaknesses over the long life of the project.
- 46. Minister Lucas began to make public statements about suing IBM and I was advised by Mr Grierson that the Government wanted IBM exited from the Project. I was advised to seek advice on options to do this and CorpTech then began working through with assorted legal advice which is now a matter of public record.
- 47. IBM in fact wanted to stay with the project and see it through to conclusion. My personal preference would have in fact been for IBM to do this so that CorpTech was not assuming the future risk and management of the system which had not been envisaged for a significant time to come. It was much more difficult for CorpTech to have to take over the project and develop relationships with key providers and contractors.
- 48. Options were taken to Cabinet and Cabinet approved a negotiated exit. The exit discussions were essentially a commercial settlement process, lead by Mr Gierson with Sarah Adams-Gedge from IBM with input on details form CorpTech. The final settlement was approved by Ministers Lucas and Schwarten.

Declaration

This written statement by me dated 16 April 2013 and contained in the pages numbered 1 to 9 is true and correct to the best of my knowledge and belief.

 Signature
Signed at Melbome this 16th day of April 20 13

Witnessed:
 Signature
Name JODEE ROGERS 16th April 2013

Signature:  Witness signature: 



**QUEENSLAND HEALTH PAYROLL SYSTEM
COMMISSION OF INQUIRY**

Annexure(s) to Statement of Witness

Items to be annexed to the statement of Natalie MacDonald taken on *16th* April 2013:

1. Change Requests 129, 174, 177, 179 and 184 (without Appendices) and accompanying note to CR184;
2. Letter dated 25 June 2009 from Natalie MacDonald to IBM;
3. Submission to the Director-General 1211/09; and
4. Submission to the Associate Director-General 1462/09.

Witness signature:

Natalie MacDonald

Officer signature:

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