

MONDAY, 22 APRIL 2013

CONTRACT AND PROJECT MANAGEMENT

OPENING REMARKS OF JONATHAN HORTON

This block of hearings concerns two primary issues, both of which arise in the period after the tender was awarded to IBM. Those two issues are:

1. why and to what extent the price for the Queensland Health Payroll System increased over time;
2. the adequacy and integrity of the contract management, project management, governance and implementation process.

The Contract was executed on 5 December 2007. It was signed by Mr Gerard Bradley, the Under Treasurer on behalf of the State of Queensland and by IBM Australia. It had attached to it, three Statements of Scope - they were the documents which provided the overall strategy or direction for the program, namely, being:

1. SOS1 - Lattice Replacement Design, Implement and Deploy. (This became the Queensland Health Interim Solution);
2. SOS2 - Phase 1 Priority Implementations;
3. SOS3 - Phase 2 Implementations.

In Schedule 23 of the Contract, you will see:

1. that Statement of Scope 1 was for the “Lattice Replacement Minimal Payroll Solution - Health” (shown in the blue box);
2. that “Phase 1” is the green boxes cascading down about half way down the page;
3. that “Phase 2” is the boxes at the bottom half of the page which cascade down and which are in green.

It can be seen that Queensland Health had been, by this time, brought forward, after which Phase 1 would be implemented. The fifth sub-stage of Phase 1 was the completion of the remaining work in QH. After that, Phase 2 (SOS 3) implementations were to take place. The only project taking place at the same time under this Contract was the early stages of the rollout in the Department of Education. You will hear today, both in my opening and from some of the witnesses, about the success or otherwise of the early stages of that project.

The Contract also had attached to it, when it was executed, six Statements of Work. The difference between Statements of Work and Statements of Scope are that the Statements of Work are contractual documents which specify a fixed price for IBM undertaking certain components of work under the Statements of Scope we have just mentioned. The Statements of Work which were entered into at the time of Contract were:

1. Transitioning;
2. Program management;
3. Shadow management;
4. Forward planning;
5. Priority Core, HR and Finance Development;

7. Lattice Replacement Interim Solution Scoping and Planning.

Two of these SOWs are of particular importance.

Under SOW 4, IBM provided a revised estimate of what it would cost to complete the program (Phases 1 and 2) and which contributed, you will hear, to a decision by the State not to permit any further Statements of Work to be entered into with IBM once those estimates clearly well exceeded the “best estimates” IBM had put forward in its ITO response.

SOW7 is also of importance. It was under this document that IBM was to “*conduct a series of activities and provide a number of specified deliverables relating to the scoping and planning for the Lattice Replacement Interim Solution*”, including defining the recommended scope, developing fixed price for design, build and implementation and develop a plan for design, build, implementation and support.

There was no SOW6 agreed at the time of Contract. It is not relevant for present purposes.

Statements of Work therefore fulfilled two purposes:

1. to define with greater particularity and certainty what it was that IBM was to do under the Contract;
2. as a way of IBM converting the “best estimate” it had given in Statements of Scope to a fixed price. Schedules 15-21 of the Contract are those which relate to pricing. Schedule 17 sets out the basis for turning best estimates into fixed price.

At the time of Contract, IBM was to scope the Queensland Health Payroll interim solution under SOW7. The price of that SOW was some \$475,875. Very soon afterwards however, the scoping exercise was extended under SOW8A. That document simply extended the time which IBM had to undertake the scoping exercise and the payment of an additional \$297,930. It was introduced into the Contract by Change Request 2 in late December 2007. That becomes relevant because one of the principal issues which seems to have been a contributor to the increase in the price was a lack of definition, it seems, in the scoping exercise which had been undertaken or, at least, a lack of certainty about it.

One of the deliverables in Statements of Work 7 was the scope of the system itself. That document is SOW8. It was introduced into the Contract by Change Request 5. IBM also delivered a QHIC Project Scope Definition - Version 0.12. It was one of the deliverables under SOW 8. This was the basis upon which the Health Project was to proceed. The price set for the project under the interim solution was over \$6 million, but as, Mr Commissioner, you will soon hear that extended well in excess of \$20 million.

I pause here, Mr Commissioner, to draw your attention to some important terminology in the Terms of Reference. Reference is made to project management. In a general sense, project management includes both program and project management. Program management relates to more overarching objectives or strategy, whereas project management is a particular undertaking, often within a wider program. The "program" here is the Shared Services Initiative as given expression in the Contract as a whole, namely Statements of Scope 1, 2 and 3, whereas the "project" is the Queensland Health Interim Solution.

Evidence will be led towards the end of the block of hearings about project management with a view to assisting you to make any recommended changes to existing policies, processes and standards to ensure the delivery of high quality and cost effective products and systems in the future.

The “go live” originally scheduled under SOW8, was late September 2008. IBM had said, however in the Contract that the “go live” would take place on 31 July 2008.

IBM went about its work to ascertain and define scope by, among other things, discussions with QH, review of existing process and systems documentation including QH’s list of agency specific requirements and conducting a series of scope validation workshops with QH and others. There is a real question whether it was ever completed, and if so, completed as a reasonably diligent and sophisticated contractor in IBM’s position ought to have done. IBM was responsible for doing that work.

There were in the order of 9 further “go live” dates. The index to the Bundle records them and their source. There were in the meantime, very many variations to the Contract and to SOW 8 to allow not only for the delays in “go live” but also for what was suggested by IBM to be (and apparently accepted by the State) changes - additions and extensions - to what IBM had originally been asked to do.

One real question however, becomes whether these dealings and changes were ones which ought to have been avoided had proper contract and project management taken place. It is beyond the scope of this Inquiry to revisit particular changes or inquire into whether, in a contractual sense, IBM ought to

have proposed and the State ought to have accepted that particular variation. That would be, Mr Commissioner, a very large exercise which would consume more time than has been allowed. It would also potentially anyway, be futile because no doubt the contractual variations were validly effected.

Whether IBM or the State is to blame for these, the unavoidable facts are that this is a project which went well over time, involved far greater expense than had been fixed from the outset and consumed the time of very many public servants and involved, in addition to the Contract price itself, the expenditure of a very large amount of public money on something which ought to have been much more efficiently planned and implemented.

It is well known of course that this system went live on 14 March 2010. In the lead-up to that date, the system underwent user acceptance testing conducted by a firm named K J Ross. The head tester was Mr Brett Cowan. He tested the system for some nine months and repeatedly and clearly identified a very large number of major defects in the system. He will say that to identify such a large number of defects repeatedly showed that there was some basic problem with the system's functionality, problems which ought to have been identified and resolved well before user acceptance testing took place and something which showed, at the most fundamental level, that this system had major underlying problems. He prepared a report to that effect on 27 January 2010.

One does not have to have technical expertise to know from that report that the system was likely to have major problems on go-live.

Two particular features of user acceptance testing will be pursued in oral evidence.

1. the first is the decisions which were made to water down the criteria by which this system entered UAT and exited it;
2. the second is the downgrading of defects (especially severity 2) which were identified such as to allow the system to pass even those watered down criteria. This evidence is important because it tends to suggest that checks which had been put in place to avoid the very thing that occurred, were circumvented deliberately and in a way which could only have been done knowing that this short-term view was only delaying what was, if not inevitable, highly likely. Defects, you will hear, ought to be downgraded only on proper, considered bases and certainly not on wholesale or pragmatic ones.

Before the ultimate “go live” decision was made, Mr Terry Burns undertook a risk assessment. It informed the Project Directorate (a recommending body for “go live”) and also the Project Board (the approving body for “go live”). That portrays the risk of failure of the Lattice system to be “extreme”. It also identifies a risk that the system will not function entirely properly upon “go live”. The oral evidence will cover the factors which went to the “go live” decision, and in particular, whether the risks were accurately understood, appreciated and investigated.

One particular fact which will become clear, is that there was a belief - perhaps rising as high as hysteria - that the Lattice system was at risk of imminent failure, that each successive pay run might result in no QH worker being paid.

That view, apart from never apparently having been properly investigated and understood in any focussed, calm and applied manner on the documents the Commission has, may be wrong. The Commission has heard evidence of a

team within CorpTech set up to maintain Lattice in light of its vendor no longer supporting the product. The fact also remains that Queensland Corrective Services for example, continues to use Lattice up to this very day. Now QH is of course a more complex organisation, but one line of inquiry which will be pursued in oral evidence, is whether it was accurate to assess this risk as one of “imminent” failure. Any good risk assessment requires a proper assessment and weighing of the risks.

It will be suggested ultimately that the risk of the Lattice failure was overstated and the risk of the system failure, the new system failure, was understated and that the risk assessment fundamentally miscarried.

So I return, Mr Commissioner, to the issues I identified at the outset:

1. how and why the price increased over time;
2. management of the Contract and the project.

As to price for the QH system, it rose from \$6.9million to, ultimately, \$25.7million. That was in the context of an increase also in the estimated price to complete the program as a whole. You will recall, Mr Commissioner, that IBM quoted in the order of \$98million for the entire program in the Tender. But we know from Mr James Brown’s second statement (Attachment 3), that by the time the “go forward” strategy was complete, IBM was estimating some \$133million as at August 2008 and some \$181million as at 31 October 2008 - a massive increase on what had originally been represented to the State as being a likely cost of the program.

This, along with other factors, caused the State to lose faith in IBM.

On 29 January 2009, the Executive Steering Committee met and decided that IBM's work was now to be limited to Queensland Health only. This was preceded by three factors:

1. the "go forward" assessment which manifestly increased the original IBM assessment of the likely price;
2. the experience which the State had had with IBM in its implementation of the interim solution within Queensland Health;
3. the roll-out (or attempted roll-out) of a Human Resources solution in the Department of Education by IBM which, the bare facts suggest, failed.

After the January 2009 Executive Steering Committee meeting, a brief was sent to the then Premier, Ms Bligh, a meeting occurred with Ms Bligh in about July 2009. It would appear that the then Premier made a decision also that IBM ought not to be engaged to undertake new work under the Contract through any new Statements of Work. The former Premier will be called to give evidence, but because her evidence is relevant also to the settlement which the State reached with IBM and in order to avoid unnecessary disruption, we propose to call the former Premier in the next block of hearings about settlement, but also covering issues relevant to the down-scoping decision.

These steps culminated in a CBRC decision on 21 September 2009, by which it was resolved, in effect, that IBM not undertake any other work under the Contract, but would continue with the Health Payroll system implementation.

There remains of course the question, Mr Commissioner, why, if IBM was thought not to be trusted to undertake further work for State of Queensland agencies, it was nevertheless permitted to continue with work which had been shown to be unsatisfactory in Queensland Health, a complex organisation which called for, if anything, greater diligence and application than did the other agencies.

Because of the depth of documents and the long period over which the system was implemented, it is foreshadowed that the evidence in this block of hearings will concentrate on the following issues:

1. the obvious lack of clarity in the scoping of the Contract, beginning with IBM's representations about what it knew had to be done, its knowledge of QH, its knowledge of Workbrain, through to the major changes to scope in Change Request 60 and 61 and then between Change Requests 129-184. Both Change Request 60 and Change Request 184 resulted in changes to the scope of the Contract and questions arise why this was necessary. In the case of Change Request 184, an additional payment was made of \$9million which was more than the original Contract price.
2. why, when user acceptance testing (UAT) was being conducted and numerous major defects were known, that did not act as a warning to those involved and why, instead of heeding that warning, criteria were changed and defects were downgraded but which seemed only to delay the inevitable and contribute to problems experienced after "go live";
3. the "go live" decision - why it was made, by whom it was made and the factors which informed it. In particular, the accuracy of the assessment of risk beforehand will be considered. You will hear of great fatigue in the

project for “go live”, long hours and the culmination, an expert will say, of these things was a death spiral in the project: fatigue, lack of definition and a lack of rigour.

4. the fourth issue is IBM’s competence in implementing the system. The Commission has had assistance from a Dr David Manfield, an expert in these matters who will express the view that IBM’s implementation of the system was less than diligent;
5. the extent to which the State diligently applied itself to managing the Contract and managing its vendor, IBM. The Commission has had assistance from an expert in IT contracts, Mr John Gray. He has expressed the view in his report that the Contract, although perhaps not by any means ideal or even consistent in some respects with good practice at the time, exposed the State to a particular risk, namely in the lack of scope definition and called for it to apply some considerable diligence to managing its vendor. What appears to have occurred, Mr Commissioner, is that, having abandoned the internal management model, and moved to the prime contractor model, the State overlooked the fact that the same deficiencies which may have existed under the internal management model, would only arise again in its management of a prime contractor. In short, the outsourcing of the management of the program and project did not mean that the State could be tardy in its insistence upon:
 - a. proper scoping;
 - b. communication to the prime contractor of its business requirements and processes what it required of the system; and

- c. to its vendor – IBM - compliance with its contractual commitments.

It is expected that there will be called to give evidence some 23 witnesses. They fall into these groups:

1. CorpTech workers (who refer to the difficulties in dealing with IBM and in the implementation generally at the practical level);
2. Mr Swinson, from Mallesons who did some of the work with a view to taking formal action against IBM under the Contract. He was ultimately told to down tools. Mr John Gray, an IT contract expert will also give evidence - as an expert - to the effect that the Contract called for the State to apply particular diligence in managing IBM;
3. workers in QH and in the payroll section who will also speak of the difficulties experienced from their side of the implementation;
4. the then Director-General of Health (Mr Reid) will give evidence to the effect that he made attempts with CorpTech to extricate QH from the whole of government / IBM arrangement but had no success and resigned himself in effect to QH remaining as part of the whole of government solution;
5. we will then call the IBM program and project directors for the relevant period: Mr Doak, Mr Hickey and Mr Gower;
6. they will be followed by senior staff within CorpTech and Public Works, including the then Director-General, Mr Grierson;

7. we will then call Dr David Manfield (a technical expert);
8. Mr Malcolm Thatcher will be called to give evidence from the Mater Hospital. The Mater made an unsolicited submission to the Inquiry. That information is of interest because it provides some insight into how an implementation in the health sector can be effected and the characteristics of a successful one;
9. the former Premier Ms Bligh will also be called. But because, as we have said, her evidence is relevant also to the settlement issue, Ms Bligh will give her evidence in the course of the next block of hearings - about her knowledge of the contract issues (mainly the down-scoping and negotiations which the former Premier conducted with IBM) and about the factors which informed the State's decision to settle its dispute with IBM.

