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The payroll system implementation disaster at Queensland Health in 2010 is said to be the most spectacular technology project failure in the Southern Hemisphere and arguably the second worst failure of public administration in Australia's history. The handling of the fires this year being first.

Queensland Health is the public sector healthcare provider for the Australian state of Queensland, located in the country's northeast. It provides dental, medical, and aged-care facilities in Queensland, which has the most geographically dispersed population of all Australian states.

Queensland Health needs to ensure that adequate healthcare services can be provided in the most remote parts of the state, which has a population of 5.07 million across an area of 1.85 million square kilometers. Every day, the organization provides hospital services to approximately 40,000 people and is responsible for approximately 85,000 employees across 300 sites.

What began as an AU\$6.19 million contract between the State of Queensland and IBM Australia to replace Queensland Health's aging payroll system eventually led to over 35,000 payroll mistakes and will ultimately cost taxpayers a whopping AU\$1.25 billion, which translates to approximately US\$850 million.

When the system went live, a large number of Queensland Health employees, including doctors and nurses, were either incorrectly paid or not paid at all. It led to the resignation of the minister of health, industrial strike action and loss of staff members to other employers.

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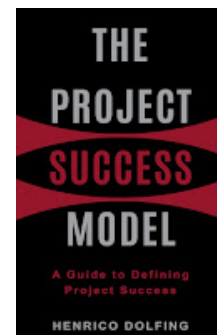
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Timeline of Events

2002

At this point in time Queensland Health used two systems for their payroll: Lattice and the Environment for Scheduling Personnel (ESP) rostering engine. Lattice and ESP were rolled out progressively over six years from 1996 to 2002.

Payroll departments were part of their respective districts. Processing of pay was undertaken locally and there were close working relationships between line managers and local payroll staff.

Whilst processing of pay occurred locally, the actual running of the pay was undertaken centrally; essentially, a 'hub and spoke' model was used.

Lattice required a substantial amount of manual interventions to accommodate the complex award and incentive structures within Queensland Health.

2003

In 2003 the Queensland State government formally established a government shared services initiative (SSI) mandating that all state government departments, including Queensland Health, replace their existing legacy payroll systems with a standardized software solution that incorporates SAP HR and SAP Finance. The overarching objective of the SSI was to consolidate technology and resources through delivering a high-quality solution with standardized business processes.

The SSI was expected to deliver the following benefits: (1) increased opportunities through enabling workforce mobility; (2) increased visibility into the cost of services; (3) reduced data duplication through the consolidation of systems; (4) reduction in costs associated with licensing agreements; (5) reduction of personnel; (6) achieve economies of scale; (7) enable the government organizations to focus on their core competencies, thus increasing the standard of service; and (8) consistency of HR and finance information across all government agencies.

2005

In 2005, just three years after the progressive rollout was completed, Queensland Health received notification from the Lattice system vendor, Talent2, that their existing Lattice system was becoming obsolete and was no longer going to be supported, with services and updates ceasing on June 30, 2008. As a result, Queensland Health needed to consider replacing the obsolete Lattice system much sooner than it would have liked.

SSI decided that the system for payroll would be SAP ECCS and Workbrain. Accordingly, it was decided that Queensland Health would replace the Lattice I ESP system with SAP ECCS I Workbrain as part of the shared services initiative.

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2007

As part of the SSI, the Queensland government established CorpTech within the Queensland Treasury to oversee the standardized implementation across all state government departments.

CorpTech was responsible for overseeing the consultant selection process (Request for Information, Request for Proposals, and Invitation to Offer) and managing the consultant organizations. CorpTech sent out a Request for Information (RFI) on July 2, 2007, and four consultant firms responded: Accenture, IBM, Logica, and SAP. Afterwards, CorpTech requested detailed proposals from the aforementioned consultant firms on July 25, 2007.

Prior to the RFI being issued, CorpTech had managed the implementation of SAP HR at the Department of Housing, and SAP Finance at the Department of Justice. These implementations proved to be quite costly as a substantial number of consultant firms and private consultants had been utilized. Due to the large expense associated with the multiple consultant firms, the consultant methodology for the SSI was changed to the prime contractor model on August 16, 2007.

Subsequently, on September 12, 2007, CorpTech released an Invitation to Offer, and IBM, Accenture, and Logica responded. Ultimately, on December 5, 2007, IBM officially signed an AU\$98 million contract to be the prime contractor of the SSI.

2008

Around October 2008, IBM had not achieved any of the "contracted performance criteria." It had, however, had been paid AU\$32 million of its AU\$98 million contract.

The idea to build a payroll system across the entire Queensland public service was now officially scrapped, but the decision was made to push ahead with a payroll system for Queensland Health.

2009

To cater for Queensland Health's specific business needs, including the complex award structure, retrospectivity, and concurrent employment, a significant number of customizations were made to both Workbrain and SAP.

Payroll and user acceptance testing was performed in parallel over a series of stages starting July 2009. The first test of the payroll compared the pays of only 10 percent of employees from all employee groups when performed in the SAP HR and Workbrain rostering solution as opposed to the legacy Lattice system, which resulted in an AU\$1.2 million discrepancy in the biweekly payroll.

2010

A second payroll test occurred in February 2010, which only resulted in an AU\$30,000 discrepancy; however, casuals and overtime claims were not tested. Queensland Health accepted the inherent risks and opted to go-live without full testing of all the functionalities of the system.

IBM continued to operate under varying scope and the state government kept signing off on the change requests. The project documentation reveals that prior to the payroll system going live, the project underwent four revised go-live dates and four separate stages of change requests, often done at the last minute.

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By the time the system finally went live in March of 2010, 20 months after the original start date, the bill had already ballooned to AU\$101 million.

Given the significant issues identified following the initial go-live, it was decided to establish a payroll stabilization project specifically focused on stabilizing the new payroll system. The four key focus areas for this project were: standardization and improvement of district and division business processes; payroll processing; payroll system performance; and support and communications for staff, line managers, and other key stakeholders.

2012

The cost of going live with a premature system resulted in more than 35,000 payroll mistakes, and by this point it had cost the state in excess of AU\$400 million just to operate the system. KPMG estimated that the cost of making the system function for the next five years would be another AU\$836 million.

2013

IBM should never have been appointed as the prime contractor in Queensland's failed health payroll project, according to the finding of the Commission of Inquiry that investigated the bungled project. The inquiry, which ran for nearly three months at a cost of AU\$5 million, heard from some 50 witnesses, including former premier Anna Bligh, former health minister Paul Lucas, and senior IBM executive Bill Doak.

The report, by Commissioner Richard Chesterman, was handed down on July 31 in the Queensland Parliament by Premier Campbell Newman. The premier described the project as "arguably the worst failure of public administration in Australia's history."

The report was particularly damning of the procurement process that led to the appointment of IBM, and decisions made by senior public servants and contractors involved with the project.

The report also found the state government could not recover any funds from IBM for the failure of the project, and that the decision to reach a negotiated settlement with IBM rather than commencing legal proceedings was made without any proper analysis.

2016

The Queensland government was ordered to pay significant costs to IBM Australia after failing in a bid to recoup losses from the health payroll debacle.

The Newman government launched legal action against IBM in 2013, arguing the company had misrepresented its capability to deliver a new payroll system on time and on budget.

But IBM challenged the lawsuit and pointed to a 2010 agreement that the company said released it from the damages claim.

A trial was held in the Brisbane Supreme Court in 2016 with Justice Glenn Martin ruling in favor of IBM.

What Went Wrong

System availability

During the payroll cut-over period to the new system, there were significant issues with the availability of the system to payroll staff which reduced the processing time available. This created an initial backlog of payroll forms and

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unprocessed adjustments for the period just prior to the go-live date that grew over subsequent pay periods.

It took approximately eight months to process the backlog of pay adjustments and forms to return to previous business as usual (BAU) levels.

Performance issues

The degree of retrospectivity accommodated by the Queensland Health payroll system, whereby staff could submit forms for work completed up to six years ago, was creating significant payroll system performance issues.

System issues

As of 2 May 2012, there were 570 logged system issues, 76 of which were identified as having the potential to impact on staff pay. System defect fixes and enhancements were required to occur during designated 'major release' schedules, of which there were three scheduled per annum. There were some delays in addressing specific defects and issues due to the prioritization of other 'fixes' including the pay date change, changes associated with enterprise bargaining changes, legislative compliance changes, etc. There was a need to gain endorsement for an agreed longer-term approach to implementing key system changes so that the release windows could be utilized more effectively.

Overpayments and entitlements

As of May 2012, Queensland Health had overpaid staff AU\$112.3 million, of which AU\$16.5 million had been repaid and AU\$3.3 million was waived, leaving AU\$9 million outstanding. Queensland Health had an obligation under the Financial Accountability Act 2009 to recover these amounts; however, there was a moratorium in place preventing Queensland Health implementing Queensland Health-instigated overpayment recovery.

Queensland Health was required to fund fringe benefit tax (FBT) liabilities associated with overpayments, and this represented a significant additional cost burden to Queensland Health. While the previously agreed overpayment moratorium was in place, the amount increased by approximately AU\$1.7 million every two weeks.

In addition to overpayments, the issue of employee leave and balances requires further investigation and analysis. PwC has conducted a number of reviews into leave balances and they have identified that up to 20,000 leave transactions are still outstanding since the move from the previous Lattice Payroll system across to SAP.

New business processes

Part of the implementation of the new system was further standardization and centralization of payroll processing, including the introduction of central processing teams and a centralized pay run. As such, the key linkage between the districts and their local payroll providers was severed — payroll staff were required to process unfamiliar rosters for staff members across the state.

In addition, fundamental differences in how districts and line managers were providing pay information and rosters were identified, with each district continuing to provide the information in the format they had developed locally (this was a continuation of what had occurred with the Lattice system; however, now the payroll officers responsible for interpreting the pay information from the districts did not have the local knowledge or relationships that had previously assisted with the interpretation process).

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How Queensland Health Could Have Done Things Differently

The key findings from the auditor general's report were as follows:

Project governance

Project governance prior to go-live, including managing relationships with key Stakeholders, was not effective in ensuring roles and responsibilities were clearly articulated and in ensuring there was clear accountability for efficient and effective implementation of the system.

The governance structure for the system implementation, as it related to CorpTech, the prime contractor, and Queensland Health, was not clear, causing confusion over the roles and responsibilities of the various parties.

Management of the project became even muddier after it commenced. Numerous agencies and boards divided oversight and authority, causing significant confusion which, in the end, rendered them all "ineffective in establishing a shared understanding of stakeholder expectations in relation to the quality of project deliverables":

- > The Solution Design Authority (SDA) (which, during this period, transformed into the program delivery office (PDO) of the state's CorpTech IT division);
- > The Queensland Health Enterprise Solution Transition (Queensland HealthEST), the state's information technology management program and acting project manager (which inexplicably retitled the "Interim Solution" as the "Queensland Health Implementation of Continuity" (Queensland HealthIC) — no confusion there!);
- > The executive steering committee (ESC), which included personnel from CorpTech as well as the shared services agency (SSA) and the Department of Education, Training and the Arts (DETA), and
- > The "Release Steering Committee," which answered to both the ESC and CorpTech and counseled its chair regarding the development of the Interim Solution.

While there appeared to be lots of oversight of the program, Australia's auditor-general reported that "it was not clear which Accountable Officer had responsibility for the overall governance and successful completion of the whole project."

Scope and requirements

There was inadequate documentation of business requirements at the commencement of the project. The absence of a periodic review of the business needs contributed to subsequent difficulties with system testing and the implementation of a system which did not meet the needs of Queensland Health's operating environment.

The complexity of the project was immense and involved the management of over 24,000 differing combinations of wage payments and withholdings for over 80,000 workers and subcontractors spread over 13 contractors and multiple industrial agreements. Because of the fear that the existing system was in imminent danger of immediate failure, IBM agreed to take just seven months to develop and implement an "Interim Solution" to tide the agency over until a full replacement became operational.

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Within that seven months, only two weeks were set aside at the beginning of the project to scope out the "critical business requirements" needed by the agency and the digital solutions that would respond to those demands. Not surprisingly, the lack of identifiable objectives was a significant cause of the project's abject bungling.

Go-live decision

When the system went live it was seriously deficient, causing staff not to be paid, or to be paid inaccurately. Neither party could have been under any misunderstanding that this was the inevitable result. It was obvious well before go-live that the project had been inadequately scoped.

"When it went live it was seriously deficient, causing very many QH staff not to be paid, or to be paid inaccurately. Neither party could have been under any misunderstanding that this was the inevitable result. It was obvious well before Go Live that the Project had been inadequately scoped. Testing (especially UAT) revealed thousands of defects, a large percentage of which concerned functional aspects of the system. A competent and experienced tester (Mr Cowan) did precisely what his role called for in advising the customer (as the party deciding whether to accept the system) of these very major problems. Despite these warnings (ones which Dr Manfield said were the clearest sign he had seen of a system in distress) the State decided to Go Live" - paragraph 2.33 from the inquiry report.

"There could have been no clearer warning of the functional deficiencies in the system and the real risk of there being defects beyond the very large number which Mr Cowan had to that date detected. Had there been any doubt up until this point, Mr Cowan's Final UAT Report put the matter beyond doubt. One does not need to have any technical knowledge to take from that report a very clear warning that, if the system proceeded to Go Live in its then state, there was a real likelihood, indeed perhaps an inevitability, that it would contain defects of a functional kind." - paragraph 5.18 from the inquiry report.

Business processes

A number of critical business readiness activities and practices were not fully developed prior to the implementation of the new system. Several changes to payroll administration practices including the reallocation of processing duties within payroll were introduced at the same time as the release of the SAP and Workbrain systems.

Standardization

The implemented Workbrain (1,029 customizations) and SAP (1,507 customizations) systems were heavily customized and are not operating optimally in the Queensland Health environment. Customizations are costly to manage, increase risk and impact on system performance and should be minimized where practical.

Supplier

Despite its affiliation with a global digital leader, this was IBM Australia's first attempt at delivering a project of this size. That fact was not helpful considering that Queensland Health was probably the most complex of the Australian agencies needing the overhaul and was perhaps not the best candidate for IBM's first go.

Layer on top of those contributors the reality that the "Solution Design Authority," the state agency with the responsibility to define and maintain the

scope, architecture, and design of the new system, was "passive, perhaps lazy" about communicating its requirements for a payroll system. Before project development began, the Solution Design Authority accepted IBM's "incomplete, ... unsatisfactory scope [of work] documents" as-is and with no questions. The project was off to a horrible start.

Closing Thoughts

As a consequence of Queensland Health's disastrous payroll implementation project, the Queensland Government changed their Information Technology (IT) strategy and governance procedures.

Furthermore, the Queensland Government IT audit specified a series of constraints that must be placed on high-risk projects, which include the following:

- 1) project management personnel must be of the highest quality;
- 2) rigorous application of the Queensland Government project and program methodology;
- 3) the project must be approved by numerous chains of command, and
- 4) a reporting regime is to be established to increase the visibility of the costs associated with IT projects.

Being a state government department in the healthcare industry, Queensland Health is by definition already riddled with substantial layers of bureaucracy, adding to the complexity and increasing the difficulties associated with decision making, visibility, and accountability.

And these reforms, whilst necessary, add additional layers to the governance process, increasing both the number of bureaucratic decisions and the degree of red tape.

Consequently, both client and consultant organizations have been more cautious throughout recent technology projects in the public sector due to the increase in compliance which leads to project delays, and increased project costs.

Thus, aside from the financial and societal implications associated with the Queensland Health payroll implementation failure, the failure has also had national, industry-wide ramifications.

But do we really learn from these massive failures? Looking at the long list of big technology projects gone wrong after this one, I doubt it.

Especially in the area of public services.

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