



**QUEENSLAND HEALTH PAYROLL SYSTEM  
COMMISSION OF INQUIRY**

**Statement of Witness**

<i>Name of Witness</i>	Michael Charles Kalimnios
<i>Date of Birth</i>	Known to the Commission
<i>Address and contact details</i>	c/- Minter Ellison Lawyers, 1 Eagle Street, Brisbane
<i>Occupation</i>	Chief Finance Officer, Northern Territory Health
<i>Officer taking statement</i>	
<i>Date taken</i>	12th April, 2013

I, **MICHAEL CHARLES KALIMNIOS** care of Minter Ellison Lawyers, 1 Eagle Street, Brisbane in the State of Queensland state:

**A. Qualifications and Work History**

- From November 2005 to June 2010 I was the Executive Director / Deputy Director-General of Corporate Services, Queensland Health. Attached and marked 'MCK-1' [Tender Bundle 'TB' 0] is a copy of my work history.
- I hold a Bachelor of Commerce awarded by the University of Queensland in 1981. I am a Fellow of the Institute of Chartered Accountants and a graduate member of Australian Institute of Company Directors.
- My role at Queensland Health involved reporting to the Director-General, providing oversight and leadership in all aspects of finance, human resources, initially capital works, legal services, purchasing and logistics, administration, business systems and policy.

Signature:

Witness signature:

- 4. I also had direct management responsibility for payroll, operational human resources, operational finance, building services and records administration. Attached and marked 'MCK-2' [TB 0] is a copy of the position description.
- 5. I was Chairman of the Project Steering Committee and later, the QHIC Project Board between 2007 until the termination of my employment in 2010.

**B. Background**

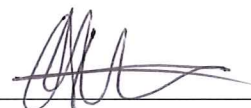
- 6. I first became involved in the planned introduction of the new Queensland Health payroll system sometime in 2006 or the early part of 2007.
- 7. As part of the shared services agenda, CorpTech were implementing new finance and Human Resource solutions across the whole of government. Queensland Health's payroll and rostering system was to be upgraded as part of that process.
- 8. My initial discussions with CorpTech focussed on the timing of implementation for the various government departments. I recall at that time that CorpTech was implementing the new system within the Department of Housing. CorpTech hoped that the work done for the Department of Housing could be repeated within Queensland Health in replacing the LATTICE system.
- 9. During my initial involvement, many of the issues centred on how the whole of government systems would be rolled out between the various departments and the order in which they would be implemented. The process of Queensland Health, through its business units, identifying the business requirements of each unit probably commenced some time in 2005. It was an ongoing process. When I first became involved in the project some time in 2006 or the early part of 2007, my role consisted of assisting Queensland Health in providing these business requirements as part of the whole of government process extending beyond Queensland Health to all other government departments. My responsibility was to ensure that the business units under my control, including finance, Human Resources and procurement, met and

---

Signature:



Witness signature:



liaised with the Queensland Health Shared Services Provider so as to permit those units adequately to articulate the business requirements of each of those units.

10. The Queensland Health Shared Services Provider was the major contact point with CorpTech. Ultimately, it was the Queensland Health Shared Services Provider which articulated the business requirements and conveyed them to CorpTech.
11. In around mid 2006 I was given direct line responsibility for the Queensland Health Shared Services Provider. Prior to taking on this responsibility, the Shared Services Provider reported to the Director-General. This meant that I had direct line responsibility for the Shared Services Provider which was responsible for implementation on Queensland Health's behalf. It also put me in a position, where, ultimately, I was more aware of the manner in which CorpTech interacted with IBM.
12. I had no involvement in the tender process or CorpTech's decision to award the contract to IBM. I was also not involved in any contract negotiations with IBM nor did I have any input in determining the appropriate systems to be used for the project. Management of the contract was done centrally by CorpTech.

**C. 2007**

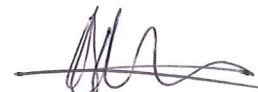
13. In early 2007, around the time it was decided to commence implementation of the new system within Queensland Health, it became apparent that the system that had been implemented in the Department of Housing was not going to translate easily to Queensland Health, because of the scale and complexity of Queensland Health.
14. During 2007 SoW7, 8 and 8A were implemented to design and set out Queensland Health's business and design build requirements. Copies of these SoW are included as Exhibit 'MCK-3' [TB 2 & 4]. The purpose of these SoW was to establish certainty between the parties.
15. Prior to SoW7, 8 and 8A being drafted and implemented, several workshops were held with each of the relevant business areas within Queensland Health, such as with Russ

---

Signature:



Witness signature:



Wild, Director Human Resources Department, Brigid Bourke, General Manager of Finance and Paul Monaghan and Janette Jones, Shared Services Provider.

16. These workshops were attended by IBM, and were designed so that it could better understand Queensland Health's business requirements, as well as ensuring that the content of the SoW was accurate. The workshops were co-ordinated by Peter Douglas and later, Adrian Shea, Executive Director, Corporate Services of Queensland Health, both of whom reported to me.
17. I had no direct involvement in the drafting of any SoW, or Change Requests. All Change Requests and SoW had to be formally negotiated between CorpTech and IBM.
18. I have been referred to Change Requests 60, 61, 129, 174, 177, 179, 184 and 202. Copies of these Change Requests are included as Exhibit 'MCK-4' [TB 5, 7 & 9]. Having now read these Change Requests, I can say that I had no involvement with the drafting or agreement of them.
19. SoW7 '*LATTICE Replacement Interim Solution Scoping and Planning*' placed an obligation on IBM to provide the implementation plan, test plan, data migration strategy and plan, and training strategy and plan for a replacement to the Queensland Health LATTICE system.

**D. 2008**

20. SoW8A '*LATTICE Replacement Design, Implement and Deploy – from 2nd January 2008 to 18th January 2008*' (undated) placed an obligation on IBM to conduct detailed design, implement and deploy activities in the deliverables from SoW7.
21. SoW8 (dated 4 April 2008) was incorporated into the contract between IBM and State of Queensland through Change Request 5. SoW8 '*LATTICE Replacement Design, Implement and Deploy*' required IBM to design, configure and build, test and implement a LATTICE replacement solution for Queensland Health.

---

Signature:



Witness signature:



22. I considered that SoW7, 8 and 8A adequately set out IBM's obligations. Despite this, I recall that Queensland Health and CorpTech had many discussions with IBM about what was in the SoW8 and what was a defect or what should be included in a formal Change Request. My view, and the view of my colleagues, was that Queensland Health's requirements had been adequately defined in SoW8.
23. On 8 August 2008 IBM sent a Delay Notice to Barbara Perrott, Executive Director of CorpTech specifying four primary causes for IBM's delay in 'Go-Live'. A copy of this letter was sent to me, which is included as Exhibit 'MCK-5' [TB 5 at 230].
24. On 15 August 2008 I wrote to Barbara Perrott responding to each of the issues raised by IBM in their letter of 8 August 2008. A copy of this letter is included as Exhibit 'MCK-6' [TB 5 at 272].
25. On 29 August 2008 I approved a Briefing Note which had been drafted by Terry Burns, QHEST Program Director, a copy of which is included as Exhibit 'MCK-7' [TB 5 at 294]. The Briefing Note sets out a number of issues which had arisen together with background to them, potential impacts, and a proposed course of action. The document speaks for itself and does reflect my understanding and opinions at the time. One of the proposed actions was that Queensland Health separate itself from the whole of government program and CorpTech's administration of it immediately and engage directly with contract companies. In the event that that recommendation was not followed, I recommended that Queensland Health engage with IBM directly and negotiate new contractual terms and conditions.
26. As far as I can recall, the response to the Briefing Note which I approved on 29 August 2008, was that Queensland Health had no alternative but to continue as part of the whole of government solution. Whether or not, in fact, that was correct, is not something about which I have direct knowledge. It was something I was told. I refer to page two of '*QHIC (QH only) Release Steering Committee Meeting Minutes*' dated 10 December 2008, included as Exhibit 'MCK-8' [TB 7 at 281] which states that

Signature:



Witness signature:



Michael Reid, Director-General and I *"met with Mal Grierson over previous weeks and have been told to stay with IBM and CorpTech."*

27. On 9 September 2008 I approved a *'Briefing Note For Information'* which was sent to Michael Reid, Director-General, included as Exhibit **'MCK-9'** [TB 6 at 8]. This Briefing Note was materially the same as the one referred to in paragraph 25 above, in that it is recommending that Queensland Health take greater control of the replacement of the LATTICE system.
28. I have been asked whether I have any recollection of a Memorandum of Understanding dated 18 September 2008, titled *'QHIC Project – principles of a proposed way forward'*, a copy of which is included as Exhibit **'MCK-10'** [TB 6 at 30]. I have no specific recollection of this document.
29. On 18 September 2008 I wrote a Memorandum to Barbara Perrott, Executive Director, CorpTech (Exhibit **'MCK-11'** [TB 6 at 26]). The broad purpose of this Memorandum was to express Queensland Health's continuing desire to have more control and input over the implementation of the replacement to LATTICE.
30. On 29 September 2008 I cleared a Briefing Note from Peter Douglas, Acting Deputy-Director, Corporate Services, which was sent to the Director-General, a copy of which is included as Exhibit **'MCK-12'** [TB 6 at 195]. The purpose of this Briefing Note was to advise the Director-General of developments relating to the whole of government SAP system implementation.

**E. 2009 – 2010**

31. In July – August 2009, in order to obtain a greater level of expertise within the QHIC Project Board, and to strengthen the capacity of the Board to understand and provide advice around the contractual requirements of the project and its related management, membership of the Board was expanded to include more business representatives from within Queensland Health (representatives from Shared Services Provider, Finance

---

Signature:



Witness signature:



Department and the Human Resources), as well as more representatives from CorpTech and IBM.

32. We relied on advice provided to us in order for decisions to be made by QHIC. Much of this data came from the Queensland Health Enterprise Solutions Transition team (QHEST), which was the corporate service IT Project Management Office which reported to me.
33. The QHEST Directorate reported to the QHIC Project Board. As the Project Management Office, QHEST was responsible for the provision of project reporting to the QHIC Board, and general oversight of the project's progress on behalf of Queensland Health. The QHIC Project Directorate however was responsible for the delivery of the project and provision of information to QHEST for presentation at the QHIC Board.
34. In March 2009, QHIC engaged a specialist testing company, K. J. Ross & Associates, to oversee the management of the QHEST User Acceptance Testing (UAT) for QHIC, and to provide QHIC with independent technical advice on how the payroll implementation solution was progressing.
35. On or around 6 July 2009 I received a '*Brief for Noting*' from Anthony Price, Director of QHEST which was addressed to Paul Lucas, Deputy Premier and Minister for Health. A copy of this brief is included as Exhibit 'MCK-13' [TB 9 at 240]. I cannot specifically recall who requested this brief, however it would have either been me or Adrian Shea, Executive Director, Corporate Services. The note reflects the facts as I then understood them to be and also the concerns that I had at that time.
36. In its draft form, the '*Brief for Noting*' contemplated clearance by Mr Shea, Executive Director, by me as Deputy Director-General of Corporate Services and ultimately the endorsement and signature of Mr Michael Reid, Director-General.
37. To the best of my recollection, I did not send the '*Brief for Noting*' to Mr Reid or to Mr Mal Grierson, Director-General of Public Works. However as I discuss below the

Signature:



Witness signature:



substance of it was discussed subsequently with Mr Reid. To the best of my recollection, I decided not to send the brief to Mr Reid because, after consultation with Mr Shea, to the best of my recollection, I thought that given the impact of the issues raised, and our desire to maintain and support the whole of government position, it was more appropriate to address these issues directly with Mr Reid, and for him to discuss those concerns directly with Mr Grierson with the objective of achieving a joint Queensland Health and CorpTech position, before escalating the issue formally to Ministerial level.

38. As noted above, shortly thereafter I had a meeting with Mr Grierson, Director-General, Department of Public Works and Mr Reid, Director-General, Queensland Health and discussed the substance of the *'Brief for Noting'* with them.
39. I understood at the time that, as a result of this meeting, a high level discussion between the Director General of Public Works and IBM took place.
40. I have been asked to consider the issue of the reclassification of some defects from severity 2 to severity 3 priority 1.
41. The continued existence of severity 2 defects was hindering the progress of the project. In particular, UAT could not proceed unless the severity 2 defects were resolved. During 2009, the rate of correction of defects was not matching defects created. It became apparent that unless the issue of these defects could be resolved the project could not move forward. The issue became whether, and if so how, the severity 2 defects could be dealt with so as to permit the project to go forward without unduly affecting the performance of the system. In broad terms, that involved ultimately the reclassification of defects such that severity 2 defects included only those which would affect 'net pay'. Providing other defects could be dealt with by a 'work around', the implementation of the system could be permitted to proceed while leaving severity 3 defects to be dealt with in the Defect Management Plan.

Signature:



Witness signature:





42. Ultimately, also, finance system integration was excluded from the severity definitions on the basis that it did not impact on net payroll production and would be dealt with also under the Defect Management Plan.
43. Whether a particular defect fell within severity 2 or severity 3 was beyond the Project Board and was a matter determined by the Project Directorate.
44. The Board acted upon the advice and recommendations of the Project Directorate in changing the approach to defects as described. The Board also relied upon and acted upon the advice of the Project Directorate in proceeding to 'Go Live,' adopting the categorisation of defects as determined by the Project Directorate.
45. I attended a QHIC Project Board Meeting on 12 May 2009 [TB 9 at 81]. However, because of ill-health I was not present at another QHIC Board Meeting until 16 July 2009 [TB 0]. I was not present at the meeting of the Board on 9 July 2009 [TB 9 at 276]. However, I have been shown a copy of the QHIC Board Meeting Minutes for 9 July 2009. Copies of the QHIC Board Minutes referred to in this Paragraph are included as Exhibit 'MCK-14'.
46. I was absent from several QHIC Board Meetings during 2009 until my employment was terminated on 30 June 2010, due to suffering from acute renal failure. I was regularly undergoing kidney dialysis during this time. This required me to attend hospital at various times each week. In my absence, Adrian Shea attended the meetings as my proxy and provided me with regular briefing and information regarding the payroll implementation.
47. Despite being absent from QHIC Board meeting on several occasions in 2009 and 2010, I remained as Chair of the QHIC Board, and was therefore responsible for the decisions which were made by the QHIC Board in the lead up to and including the decision to 'Go-Live'.

---

Signature:



Witness signature:



**F. 'Go-Live' Decision**

48. Of the meetings of the Board held on 13 January 2010, 22 January 2010, 27 January 2010, 29 January 2010, 1 February 2010, 10 February 2010, 12 February 2010, 24 February 2010, 1 March 2010 (Queensland Health only), 12 March 2010, 14 March 2010 and 19 March 2010, I was only able to attend meetings on 13 January 2010, 12 February 2010, 1 March 2010 and 12 March 2010. Copies of the QHIC Board Minutes referred to in this Paragraph are included as Exhibit 'MCK-15' [TB 13 – 15].
49. Over the course of the project, the 'Go-Live' date for implementation was delayed on approximately ten occasions due an excessive number of defects on UAT.
50. On 29 January 2010 the QHIC Board approved the 'Go-Live' date and moved into 'cut over' activities.
51. The decision to 'Go-Live' on 24 March 2010 was taken by the Board believing it to be the best decision in all of the circumstances. The Board acted on reports and recommendations from QHEST, IBM, CorpTech, the independent contractor K. J. Ross & Associates and from independent contractors, Mr Terry Burns and Mr Shaurin Shah.
52. On 24 February 2010 the QHIC Board accepted and approved the "QHIC User Acceptance Testing Test Completion Report" which had been drafted by K. J. Ross & Associates, together with the Management Response (Version: 1.0) which dealt with each of the key issues raised within this report. A copy of this report, together with the Management Response, is included as Exhibit 'MCK-16' [TB 13 at 283 and TB 0].
53. In addition to the report referred to above from K. J. Ross & Associates, I considered the undated report of Terry Burns and Shaurin Shah titled "QHIC Final Solution Risk Assessment report 1.0" which was presented at a QHIC Pre-Board meeting on 1 March 2010, which was attended by Queensland Health only. A copy of this report is included as Exhibit 'MCK-17' [TB 15 at 14]. I noted that the report assessed the QHIC Solution as adequate, and that the recommendation of the report was that:

Signature:



Witness signature:



*"Queensland Health enter the production cut over process in order to proceed to go-live, provided all critical milestones within this process are successfully executed according to the planned schedule and that the risk mitigation plan for the key residual risks is actioned successfully.*

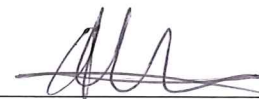
*But there is a residual risk that the cumulative effect of the high levels of defects occurring in each successive pay run, which by their nature create a further impact on the next pay run, could lead to an unsustainable operational condition."*

54. It was clear from Terry Burns' report that there were risks associated with 'Go-Live', but that there was also an extreme risk of the LATTICE system failing in the future. The report of Mr Burns did not come as a surprise to the QHIC Board, and certainly solidified the ongoing advice that we have been getting as to how the QHIC project was progressing. I considered that this risk was an acceptable risk, given the alternative was potential failure of the LATTICE system.
55. In the course of my involvement with the implementation of the new payroll system, I was advised that there was a very real and imminent risk of LATTICE, the existing payroll system, collapsing. That is, in practical terms, I understood that should LATTICE collapse a payroll of 78,000 people may not be paid in a given fortnight. In particular, I was told by Philip Hood, Deputy Executive Director, CorpTech, and Janette Jones, that remaining with LATTICE was not an option, due to the instability of the system.
56. Support arrangements for LATTICE had to be extended on a number of occasions but after Talent2, the software vendor withdrew, I understand that in or around September 2008 CorpTech was forced to establish its own internal team to support LATTICE. This was not a long term solution.
57. The reports of K. J. Ross & Associates and that of Terry Burns largely supported the information that we had already been told, namely that this was a poor quality product in terms of what we should have expected. There were many 'workarounds' in place and there were risks associated with a decision to 'Go-Live'.

Signature:



Witness signature:



58. At the time of making the decision to 'Go-Live', I was conscious that Queensland Health had received a poor quality product in terms of what we should have expected. Indeed, if I may say, the position the Board found itself was the consequence of many of the issues I had identified in 2008. The circumstances were not ideal, but from the Board's perspective there were limited options.
59. The Project Directorate and the independent advisors all advised us to go forward. While the Board recognised that to do so involved risk, the risk was regarded as manageable and there was significant risk in maintaining reliance on the LATTICE system.
60. Finally, our advice was that putting aside a full parallel test, further UAT was unlikely to be of use. The Board took the view on advice that a full parallel test was not possible, that LATTICE could not both perform its payroll function and be the subject of a testing process at the same time.
61. I have been asked to consider why there was not a full parallel payroll test prior to the decision to go live.
62. It had become accepted wisdom that a full parallel test was not practical. This as I understand was based on advice provided by IBM. I am not aware of the precise technical reason of why this was so. This was reconfirmed after a review by SAP of the project, I recall around October 2009. I was informed by IBM (I think by Bill Doak) that it was not practical or possible to conduct a full parallel test. I understood that this was so because of the human and technological resources was simply not available to conduct such a large exercise, effectively twice, at the same time, given the structure of the Queensland Health payroll cycle.
63. I was advised by IBM that a course that was available was one which involved a series of smaller parallel tests, of perhaps 10% of the payroll, not the whole payroll. This was referred to as Pay Cycle Validation tests. The Project Directorate accepted this testing as adequate and advised the Board that the testing was adequate. The Board acted on the basis of that advice.

Signature:



Witness signature:



**G. Post 'Go-Live'**

- 64. A short time after issues started to arise with the new payroll system, the Deputy Premier and Minister for Health, Mr Lucas, became directly involved. This led to the 'Payroll Stabilisation Project' being established. Mr Michael Walsh was put in charge of this project.
- 65. On 30 June 2010, I was called to a meeting with Mr Michael Reid, Director-General. During the meeting I was told that due to issues arising from the payroll implementation, that my contract with Queensland Health would be terminated.
- 66. My final day working for Queensland Health was 30 June 2010.
- 67. I voluntarily make this statement to the Commission of Inquiry. The content of this statement are true and correct to the best of my knowledge. I acknowledge that any false or misleading statement could be an offence against the *Commission of Inquiry Act 1950* (Qld) or contempt of the Commission.

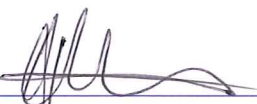
**Declaration**

This written statement by me dated 12<sup>th</sup> April 2013 and contained in the pages numbered 1 to 13 is true and correct to the best of my knowledge and belief.

 . Signature

Signed at Darwin this 12<sup>th</sup> day of April 2013

Witnessed:

 Signature

Name Kym Godbold . \_\_\_\_\_



**QUEENSLAND HEALTH PAYROLL SYSTEM  
COMMISSION OF INQUIRY**

**Annexure(s) to Statement of Witness**

Items to be annexed to the statement of Michael Charles Kalimnios taken on *12th April, 2013*

<b>Annexure</b>	<b>Document</b>	<b>Page No.</b>
MCK1	Work History of Michael Kalimnios	0001
MCK2	Queensland Health Executive Director Corporate Services Role Description	0002
MCK3	Statement of Works 7, 8 and 8A	0021
MCK4	Change Requests 60, 61, 129, 174, 177, 179, 184 and 202	0089
MCK5	IBM Notice of Delay to CorpTech dated 8 August 2008	0233
MCK6	Michael Kalimnios letter to CorpTech dated 15 August 2008	0235
MCK7	Briefing Note drafted by Terry Burns approved on 29 August 2008	0239
MCK8	QHIC Meeting Minutes dated 10 December 2008	0242
MCK9	Briefing Note approved on 9 September 2008	0246
MCK10	Memorandum of Understanding dated 18 September 2008	0248
MCK11	Michael Kalimnios Memorandum to Barbara Perrott dated 18 September 2008	0250
MCK12	Briefing Note from Peter Douglas approved on 29 September 2008	0254
MCK13	Briefing Note from Anthony Price of QHEST dated 6 July 2009	0256
MCK14	QHIC Meeting Minutes dated 12 May 2009, 16 July 2009 and 9 July 2009	0267
MCK15	QHIC Meeting Minutes dated 13 January 2010, 22 January 2010, 27 January 2010, 29 January 2010, 1 February 2010, 10 February 2010, 12 February 2010, 24 February 2010, 1 March 2010 (QH only), 12 March 2010, 14 March 2010 and 19 March 2010	0277
MCK16	QHIC User Acceptance Testing Test Completion Report drafted by K.J. Ross & Associates	0289
MCK17	QHIC Final Solution Risk Assessment Report 1.0	0335

Signature:

Witness signature: