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Testimony before the Interim Information Technology Committee
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Fort Union Room, State Capitol
Bismarck, North Dakota

Today I am here to tell you that WSI has dropped Aon as a partner in the Advanced Information Management (AIM) project. Their contract expired on December 31st and with Executive Steering Committee approval we have decided not to extend the contract.

WSI has two alternatives for going forward. The most desirable alternative is to seek a new partner to fill the role previously held by Aon. That would allow WSI to maximize what we have accomplished and utilize the skill that our staff has attained working on this project to this point.

A second alternative would be to use the money that is already budgeted in the proposed 13-15 budget for WSI to complete a policy module and take a longer look at the claims module and request funding in the 15-17 biennium.

The project was initiated and the software vendor selected before Workforce Safety & Insurance was returned to the control of the Governor's Office by voters in November 2008 and I became the director of WSI.

To date WSI has paid Aon eSolutions \$6,741,391. If the project was successfully completed with a claims and policy function they would have received \$8,806,681. The difference is \$448,539 in invoices received but not paid, \$420,627 in forfeited payments (by contract agreement), \$588,680 de-scoped policy payments and \$607,443 in payments they could have earned. That is a total of \$2,065,289. Plus WSI reduced third party costs which had continued by

eliminating some of HCL's functions. This reduced their monthly fee from \$91,530 to \$63,405.

WSI does have tangible results from the original proposed project. WSI successfully completed an upgrade to its imaging system, FileNet, which brings our imaging, storage and retrieval of documents up to current capabilities which will be beneficial in any existing or new system WSI uses; a back-scanning project where nearly a million documents were transferred from paper to electronic images (this included old claim files where the only source was the paper file and numerous policy related documents) was completed which greatly enhances our ability to retrieve these documents; and system architecture studies, reviewing the technology architecture of current systems and providing recommendations for future systems, were conducted that will continue to be of benefit going forward as we pursue options for completing the project.

The staff is well seasoned and exceptionally knowledgeable on testing and procedures associated with this kind of project which should allow us to move quickly with a new partner. WSI has more precise documentation on business requirements of a software system replacement project going forward.

In the fall of 2012, as WSI's confidence in Aon fell the Executive Steering Committee (ESC) asked Aon to come to North Dakota and provide a compelling presentation as to why and how they could successfully complete the project in a timely manner. When they failed to provide a convincing argument WSI asked them to send a team to Bismarck and prove they could finish the project in a timely manner. WSI sent them a letter asking them to work on four major components in a "Proof of Concept" (POC). Aon narrowed the focus greatly and the results did not increase the agency's confidence that they could finish the project in a timely manner. Following this the ESC voted not to extend the contract.

As I have stated all along, the injured workers, policyholders and medical providers can be assured we will not make the switch to a new system until we are confident whatever systems we go with will serve our customers well.

In earlier testimony I told you WSI felt Aon could finish the project and if we didn't think so we would tell you. That is what we are telling you now.

Here is background on the project.

Background

In 2006 Workforce Safety & Insurance (WSI) determined, based on the conclusions and recommendations of an assessment from Gartner, that WSI's current Claims Management System (CMS) needed to be replaced with a more robust system. Key components for the system were developed and the Advanced Information Management (AIM) project envisioned a complete system replacement for CMS for injured workers, as well as developing and integrating a Policyholder System (PHS) for employers.

In 2007, following a request for proposals, Valley Oak Systems was selected as the software vendor and a contract signed in June of 2007 with Valley Oak Systems. The conversion project envisioned replacing CMS and developing a Policyholder system (PHS). The AIM project had a go-live date by the end of 2009.

In January 2008 Valley Oak Systems began the implementation of the new system with plans to implement an integrated customized application into a commercial-off-the-shelf (COTS) solution to replace both our current claims and policy systems. Mid-year 2008, Valley Oak Systems was acquired by Aon eSolutions.

WSI signed Amendment #7 in July of 2010 which included adding another \$2.67 million into the project budget for Aon to ensure a successful timely completion of the project. Essentially, Amendment #7 was an effort to put the project on new footing and set a new course of cooperation and progress for the project. In June of 2011, we signed Addendum # 1 to Amendment #7 which added financial consequences in the form of forfeited payments to Aon if they did not deliver according to the terms/timeline set out in Amendment #7.

Throughout 2011 and 2012, on numerous occasions, Aon failed to meet deliverable timelines or performance standards causing further delays in the project. Each time the project came to one of these critical points Aon provided a rational plan that had a new date in the future and appeared to have a chance to work. Each time following that point the performance of Aon was been sub-par. It became clear, after many delays that the project was likely to never be completed in a satisfactory way.

Financial Accountability

Beginning in August 2011 WSI began withholding partial payments due to unsatisfactory delivery/performance on Aon's part and eventually stopped paying milestone payments for releases. To date, we have withheld \$448,539 in payments. Starting in February 2012 the payment forfeitures negotiated in Addendum #1 to Amendment #7 began and to date \$420,627 has been forfeited by Aon. Aon has also not earned \$607,443 in payments that remain on the contract.

Since February 2012 the only money paid to Aon has been for travel expenses as agreed to in Amendment #7. Amendment #7 also spread Aon's monthly payments over the longer timeline contained in the amendment. It maintained the same dollar amount and had the effect of reducing the payment from \$40,000 per month to \$25,000 per month ending this past October. These are the payments that Aon eventually forfeited.

Cost to Date:

\$6,741,391 has been paid to Aon, \$7,065,000 to HCL and \$3,195,000 to other vendors including ITD. To date WSI has spent about \$17,000,000 in total project cost. HCL and the other vendors have provided what they promised for the monies they were paid. WSI has also enacted cost control with HCL cutting in half the amount of money they received for project management and.

Since January 31, 2012 while WSI has been holding Aon financially accountable, WSI has paid total project expenses to all vendors of \$1,427,490.

The detail on this is that the costs of completing the project are coming from the fund surplus. The good news is that it doesn't get figured into the premium rates. The fund balance comes from positive underwriting results (more premium than claim costs) and investment returns over the years. It could have affected the amount of dividend we returned each year but we have still provided the maximum amount of dividend the last three years.

Once the project was ready to be used the cost of maintenance and support would be factored into the administrative costs of the premium rates charged.

Plan Going Forward

From this point forward the management team at WSI is working to effectively and skillfully separate from Aon and any partnerships associated with them. The next steps will be to seek a new partner to fill in Aon's portion of the project. If acceptable to the Governor's Office and the legislative process, WSI would start the RFP process quickly so as to complete it by the end of the appropriation process of the legislature. That would allow the agency to provide an accurate dollar amount for the completion of the project. Internally there is very good knowledge of the requirements of any new software. The information WSI now has about those requirements is more detailed than when the project was started. The WSI staff is well-seasoned on how to go about testing and implementing a new software system.

Another alternative would be to develop various modules separately. WSI could use funding within the proposed budget to solicit bids for completing the policy portion and then later seeking bids to complete the claims portion.

One estimate is that it would take 22-30 months to complete a software replacement of claims and development of a policy module.

WSI is evaluating what the next steps will be in regards to recovering costs associated with the project. Legal action is a possibility and one that WSI would certainly undertake if it was determined to be the best avenue.

Why Now?

WSI worked diligently with Aon, in an effort to get the project completed and gave Aon numerous chances to complete their end of the project. Most recently, knowing that we were coming to a critical time, WSI requested that Aon come to Bismarck and make a convincing argument to the Executive Steering Committee (which provides project oversight) that the project could be successfully completed in a timely manner. The Executive Steering Committee meeting was held on November 15, 2012. After the meeting it did not seem that Aon had accomplished that task and so we asked them to put together a process that would convince us they are capable of completing the project in a timely manner. WSI sent a letter asking that they complete work on four substantial parts of the software replacement project. The project requirements were benefit calculations, correspondence, Mitchell Bill Review (Smart Advisor) integration with iVOS and business rules. They presented the idea of a proof of concept (POC) and had a team on-site during the time period from December 4-13, 2012. They narrowed the scope of the POC significantly.

For example Aon chose one benefit calculation, a very critical process to our operations, and were unable to satisfactorily demonstrate that all benefit calculations could be completed in a timely manner.

While Aon was able to prove they could accomplish some of the work it was a very small amount in comparison to the remaining work and it did not raise our confidence that they can complete the project in a timely manner. It also raises questions about a future relationship and their ability to quickly enact the needs of a software system that we are so heavily dependent upon as a technology and data driven business.