

## **Business Application Modernization (BAM) Project 2016 Report to Legislature**

### Legislative Requirement:

*Sec. 716b. The department of state shall provide a report that calculates the total amount of funds expended for the business application modernization project to date from the inception of the program. The report shall contain information on the original start and completion dates for the project, the original cost to complete the project, and a listing of all revisions to project completion dates and costs. The report shall include the total amount of funds paid to the state by the contract provider for penalties. The report shall be submitted to the senate and house of representatives standing committees on appropriations, the senate and house fiscal agencies, and the state budget director by January 1.*

### Overview:

The BAM contract was terminated for cause on August 28, 2015. On September 18, 2015, the Department of Technology, Management and Budget and the Department of State, working with the Office of the Attorney General, filed a lawsuit based on HP's breach of its material duties and obligations under the contract. Prior to initiating legal action, the State attempted to negotiate a settlement but a mutually-agreeable resolution could not be reached.

On October 2, 2015, the State (via the Attorney General's office) filed a Motion for Preliminary Injunction asking the court to require that HP: 1) return to the work site and complete transition services, and 2) return to the State the source code, as well as data migration scripts. On October 16, 2015, the State and HP reached an agreement on a transition plan. HP returned to the work site it left despite a contract requirement that they provide transitional support. Transitional services were completed on March 31, 2016. Transition services contractually could have lasted up to 270 days but the State completed the transition in approximately half the time. On November 16, 2015, the court granted the State's motion and ordered HP to turn over the required source code. HP complied with the court's order and the State had to upgrade the code to include current software versions and fixed defects that were found in the code base HP provided.

### Plan Forward:

The State has initiated a re-procurement effort with a bid due date of November 9, 2016. The Joint Evaluation Committee (JEC) is finalizing the award determination. Future reports will be focused on the legacy modernization effort that should begin in early 2017.

### Project Completion Dates & Revisions:

See BAM 2015 report to the Legislature for Project Date Information.

### BAM Project Expenditures:

In FY16, \$350,574 was paid to HP for transitional support. No additional payments will be made to HP for the project since the contract was cancelled and the project has been terminated due to HP's inability to deliver the project despite having 10 years to complete it.

As of September 30, 2016 MDOS has incurred the following total expenditures for the BAM project:

<u>Phase/Item</u>	<u>Costs</u>
Phase 1: Vision (4 mths)	\$14,600
Phase 2: Design (15 mths)	\$1,774,466
Phase 3: Build (FY05 – FY15)	
BAM Contract Expenditures	\$34,029,107
Other Hardware/Software	3,044,916
Project Management	3,954,788
Other System Development	347,253
Other Miscellaneous Costs	494,729
Knowledge Transfer Costs	224,737
Total Phase 3 Costs	<u>\$42,095,530</u>

Total BAM Project Expenditures \$43,884,596

Estimated State of Michigan Employee Salary Costs (FY03 - 3/31/16): \$28,066,711\*

BAM Project Transition Costs (8/31/15 – 3/31/16): \$1,368,065

\*Salary costs were not included in the total BAM project expenditures line above since these costs would have been incurred with or without the BAM project.

Funds Paid for Penalties:

The lawsuit filed on September 18, 2015, seeks to recover monies paid to HP for Critical Milestones, hardware and now useless personalized applications, re-procurement costs as provided for in the HP contract incurred by the State for replacing HP's failed system, in addition to the liquidated damages in the amount of \$10,933,875.

Additional Information:

In November 2016, Rhode Island filed a lawsuit against Hewlett Packard Enterprise (HPE) related to their failed legacy modernization system for their motor vehicle agency. In a statement Secretary of State Ruth Johnson indicated, *"It is unfortunate that yet another state finds itself having to sue Hewlett-Packard Enterprise for failing to deliver on a computer system project. Already, Vermont, New Mexico, California, New Jersey, Idaho and Michigan have terminated their relationship with HPE."*  
*"...Here in Michigan we have lost a decade to HP's inability to deliver. It appears that residents of Rhode Island have suffered the same fate."*