

Blinson, Amy

From: Young, Debbie
Sent: Thursday, January 09, 2014 11:48 AM
To: Lyons Gray; Estes, Chris; david crotts; jec@uncc.edu; John C. Fread (johnf@logicaladvantage.com)
Cc: artpopenc@aol.com; Janice McDougald; Blinson, Amy
Subject: P3 Committee
Attachments: January 10 Letter.doc

Importance: High

Greetings All –

On behalf of Art Pope, Chairman of the P3 Committee, I am sending this CONFIDENTIAL information for your timely review and immediate turn around. My apologies for the short notice but it is imperative that we get an answer as soon as possible but no later than 4pm today. Please respond directly to me with your approval or disapproval to execute the attached letter.

As you know, the Department of Revenue sent CGI a Notice of Default and Opportunity to Cure on November 27, 2013. During the past six weeks, we have been in discussions with CGI in an attempt to resolve the issues amicably. We have communicated the Department's positions and needs numerous times, and have remained open to a resolution that would mutually benefit the parties and protect the Department's interests. We have not received from CGI a resolution to cure, nor do we have an acceptable offer on an alternative approach to move forward in any capacity. The Department has given CGI until 12:00 noon on Friday, January 10, 2014, to provide either a resolution to cure or an alternative offer to meet the Department's needs. While we continue to hold out hope that the issues will be resolved amicably, we are prepared to issue a Notice of Termination tomorrow.

We respectfully request you review and approve the attached Notice of Termination. With your approval to execute, we will issue the letter tomorrow afternoon in the event that CGI does not provide a resolution, and notify you immediately that the letter has been issued. Due to the timing and nature of the letter, we request you respond with your approval today, January 9th, by 4:00 pm. As we are still evaluating all options, we request this remains confidential until such time the letter is executed and the Department issues a formal statement.

Thank you in advance for your response and continued support.

Happy New Year!
Debbie



North Carolina Department of Revenue

Pat McCrory
Governor

January 10, 2014

Lyons Gray
Secretary

Mr. Peter G. Ihrig
Senior Vice President and General Manager
CGI Technologies and Solutions Inc.
11325 Random Hills Road
Fairfax, Virginia 22030

SUBJECT: NOTICE OF TERMINATION

Dear Mr. Ihrig:

The North Carolina Department of Revenue (Department) published a Request for Proposal (RFP) January 23, 2008, inviting firms to provide proposals for a solution to replace the current integrated tax system that would fully support all of the essential functions of tax administration for the State of North Carolina, a new solution named the Tax Information Management System (TIMS). CGI submitted a proposal on March 24, 2008, with the contract being awarded to CGI with both parties executing Best and Final Offer #2 (BAFO #2) August 29, 2008 (Contract).

The Department contracted with CGI to provide the design, development, testing, implementation, management, and support of TIMS to transform how the Department uses technology to execute its statutory responsibilities. The proposal provided by CGI and accepted by the Department included a phased implementation of the solution, including implementation of non-ITAS tax types and the ITAS tax types in separate and individual phases (Release 3 and Release 5). Release 3 was partially implemented in production for use by the Department to support daily operations on July 14, 2011, but continues to have defects and performance issues. Initially, Release 5 was to be implemented one year after Release 3. To date, Release 5 has not been implemented.

The Contract has been amended thirteen times to include benefits funding, change orders, scope and requirement adjustments, and a fully implemented Release 5 no later than October 31, 2013. The period of performance under the Contract has been marked by significant obstacles directly arising from CGI's failure to meet its contractual obligations, empty assurances and guarantees, and poor performance. Specifically, Release 5 has not been implemented and the Department continues to rely on ITAS for daily operations.

Failure to meet the various contractual obligations resulted in the issuance of a Notice of Default and Opportunity to Cure (Notice) by the Department on November 27, 2013. In the Notice, the Department reiterated that Amendment 13 to the Contract, signed by the parties in June 2013, required Release 5 to be implemented on or before October 31, 2013. To date, Release 5 remains incomplete and has not been implemented according to the requirements and specifications of the Contract. The Notice also stated that Release 3 defects and performance issues continue to persist, with the Department requesting that CGI cure the default. CGI responded to the Notice in writing on December 6, 2013. To date, CGI has not presented a proposal to the Department to meet its obligations under the Contract and cure the default. Release 5 is incomplete and Release 3 defects and performance issues are not resolved.

As of the date of this letter, CGI has failed to deliver TIMS as required by the Contract. CGI has breached the terms of the Contract and therefore is in default. Due to CGI's failure and inability to deliver as

required, the Department has determined that the Contract should be, and is hereby, canceled and Terminated for Cause pursuant to Section 7.30.1.A of the Contract.

CGI is hereby instructed to cease and desist from all activities related to the project, effective immediately, and is further instructed to return any and all property belonging to the State of North Carolina or the Department without delay. CGI is further advised to retain and preserve any and all records, including electronically stored information, pertaining to the Contract and CGI's performance thereunder.

Yours truly,

Lyons Gray, Secretary
North Carolina Department of Revenue

CC:

Jeffrey Epstein, Chief Operating Officer, NCDOR

Chris Estes, State Chief Information Officer, NC ITS

Daniel Garner, General Counsel, NCDOR

Jerry Coble, Assistant Secretary for Business Systems, NCDOR

David Roseberry, Assistant Secretary for Information Technology, NCDOR

Tom Dixon, Assistant Secretary for Tax Administration, NCDOR

An Equal Opportunity Employer

Blinson, Amy

From: Estes, Chris
Sent: Thursday, January 09, 2014 11:50 AM
To: Young, Debbie
Cc: Lyons Gray; david crotts; jec@uncc.edu; John C. Fread (johnf@logicaladvantage.com); artpopenc@aol.com; Janice McDougald; Blinson, Amy
Subject: Re: P3 Committee

Approve

Sent from my iPhone

On Jan 9, 2014, at 11:47 AM, "Young, Debbie" <debbie.young@osbm.nc.gov> wrote:

Greetings All -

On behalf of Art Pope, Chairman of the P3 Committee, I am sending this CONFIDENTIAL information for your timely review and immediate turn around. My apologies for the short notice but it is imperative that we get an answer as soon as possible but no later than 4pm today. Please respond directly to me with your approval or disapproval to execute the attached letter.

As you know, the Department of Revenue sent CGI a Notice of Default and Opportunity to Cure on November 27, 2013. During the past six weeks, we have been in discussions with CGI in an attempt to resolve the issues amicably. We have communicated the Department's positions and needs numerous times, and have remained open to a resolution that would mutually benefit the parties and protect the Department's interests. We have not received from CGI a resolution to cure, nor do we have an acceptable offer on an alternative approach to move forward in any capacity. The Department has given CGI until 12:00 noon on Friday, January 10, 2014, to provide either a resolution to cure or an alternative offer to meet the Department's needs. While we continue to hold out hope that the issues will be resolved amicably, we are prepared to issue a Notice of Termination tomorrow.

We respectfully request you review and approve the attached Notice of Termination. With your approval to execute, we will issue the letter tomorrow afternoon in the event that CGI does not provide a resolution, and notify you immediately that the letter has been issued. Due to the timing and nature of the letter, we request you respond with your approval today, January 9th, by 4:00 pm. As we are still evaluating all options, we request this remains confidential until such time the letter is executed and the Department issues a formal statement.

Thank you in advance for your response and continued support.

Happy New Year!
Debbie

<January 10 Letter.doc>



North Carolina Department of Revenue

Pat McCrory
Governor

January 10, 2014

Lyons Gray
Secretary

Mr. Peter G. Ihrig
Senior Vice President and General Manager
CGI Technologies and Solutions Inc.
11325 Random Hills Road
Fairfax, Virginia 22030

SUBJECT: NOTICE OF TERMINATION

Dear Mr. Ihrig:

The North Carolina Department of Revenue (Department) published a Request for Proposal (RFP) January 23, 2008, inviting firms to provide proposals for a solution to replace the current integrated tax system that would fully support all of the essential functions of tax administration for the State of North Carolina, a new solution named the Tax Information Management System (TIMS). CGI submitted a proposal on March 24, 2008, with the contract being awarded to CGI with both parties executing Best and Final Offer #2 (BAFO #2) August 29, 2008 (Contract).

The Department contracted with CGI to provide the design, development, testing, implementation, management, and support of TIMS to transform how the Department uses technology to execute its statutory responsibilities. The proposal provided by CGI and accepted by the Department included a phased implementation of the solution, including implementation of non-ITAS tax types and the ITAS tax types in separate and individual phases (Release 3 and Release 5). Release 3 was partially implemented in production for use by the Department to support daily operations on July 14, 2011, but continues to have defects and performance issues. Initially, Release 5 was to be implemented one year after Release 3. To date, Release 5 has not been implemented.

The Contract has been amended thirteen times to include benefits funding, change orders, scope and requirement adjustments, and a fully implemented Release 5 no later than October 31, 2013. The period of performance under the Contract has been marked by significant obstacles directly arising from CGI's failure to meet its contractual obligations, empty assurances and guarantees, and poor performance. Specifically, Release 5 has not been implemented and the Department continues to rely on ITAS for daily operations.

Failure to meet the various contractual obligations resulted in the issuance of a Notice of Default and Opportunity to Cure (Notice) by the Department on November 27, 2013. In the Notice, the Department reiterated that Amendment 13 to the Contract, signed by the parties in June 2013, required Release 5 to be implemented on or before October 31, 2013. To date, Release 5 remains incomplete and has not been implemented according to the requirements and specifications of the Contract. The Notice also stated that Release 3 defects and performance issues continue to persist, with the Department requesting that CGI cure the default. CGI responded to the Notice in writing on December 6, 2013. To date, CGI has not presented a proposal to the Department to meet its obligations under the Contract and cure the default. Release 5 is incomplete and Release 3 defects and performance issues are not resolved.

As of the date of this letter, CGI has failed to deliver TIMS as required by the Contract. CGI has breached the terms of the Contract and therefore is in default. Due to CGI's failure and inability to deliver as

required, the Department has determined that the Contract should be, and is hereby, canceled and Terminated for Cause pursuant to Section 7.30.1.A of the Contract.

CGI is hereby instructed to cease and desist from all activities related to the project, effective immediately, and is further instructed to return any and all property belonging to the State of North Carolina or the Department without delay. CGI is further advised to retain and preserve any and all records, including electronically stored information, pertaining to the Contract and CGI's performance thereunder.

Yours truly,

Lyons Gray, Secretary
North Carolina Department of Revenue

CC:

Jeffrey Epstein, Chief Operating Officer, NCDOR

Chris Estes, State Chief Information Officer, NC ITS

Daniel Garner, General Counsel, NCDOR

Jerry Coble, Assistant Secretary for Business Systems, NCDOR

David Roseberry, Assistant Secretary for Information Technology, NCDOR

Tom Dixon, Assistant Secretary for Tax Administration, NCDOR

An Equal Opportunity Employer