

## COMMISSION AGENDA ITEM

### Item 8(e) – Epicor Maintenance and Operations Contract Amendment 1



**Date:** March 21, 2024

**To:** California State Lottery Commission

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Director

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**Subject:** **Item 8(e) – Epicor Maintenance and Operations Contract Amendment 1**

### ISSUE

The California State Lottery's (Lottery) Financial System contract with Epicor Software Corporation (Epicor) for continuing maintenance and operations (M&O) support, enhancements, and new functionality of Epicor version 10 (E10) system that was executed on July 1, 2022 is currently expected to run out of funds by April 2024. The Lottery seeks the California State Lottery Commission (Commission) approval to add an additional \$250,000 in expenditure authority.

### BACKGROUND

The Lottery's financial system is critical to many of the Lottery's core functions, including accounts payable and receivable, procurement management and tracking, asset and cash management, general ledger accounting, and business reporting. The Lottery has utilized Epicor software and services to run its financial system since 1999.

In 2018 the Lottery initiated a project to upgrade from Epicor 7.4 system to E10 system. The upgrade to E10 was completed in 2022 and, due to the proprietary nature of the system, a contract for M&O support, enhancements, and new functionality of E10 was executed. The current M&O support contract does not expire until June 30, 2025 but funds are expected to be fully expended by April 2024. When the M&O support contract was originally developed, the funds and timeline identified were based upon an anticipated burn rate of 36 hours per month for 36 months. However, when the E10 project was completed in September 2022 there were a number of project tasks and deliverables that were unable to be addressed by the project end date. As a result, a business decision was made to have those items addressed through M&O which, due to the proprietary nature of the system, required that the M&O support contract be leveraged for consultant services. These unanticipated post-project activities utilized approximately 30% of the overall M&O support contract funds, exceeding the original anticipated monthly burn rate, and resulting with the funds in the contract being expended much sooner than the original estimate of June 2025.

### DISCUSSION

The Lottery's long history with Epicor was the result of the business decision made by the Lottery to invest in Epicor's product over 20+ years ago, and again in 2018 when the Lottery decided to

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upgrade to E10. Epicor is a proprietary product that only Epicor can maintain and support, which requires ongoing specialized and expert knowledge with the Epicor product.

The upgrade from the E7.4 system to the E10 system resulted in a transition from an on-premise system to a cloud-based system. The Lottery uses the E10 cloud-based accounting applications suite for Finance and Operations Management. The Lottery's financial system is critical to many of the Lottery's core functions, including accounts payable and receivable, procurement management and tracking, asset and cash management, general ledger accounting, and business reporting.

This contract amendment will enable the continued funding of necessary ongoing consultant services for M&O support of the proprietary Epicor E10 system that supports the Lottery financial system. Additionally this contract amendment will enable the Lottery to implement enhancements and/or new functionality that may be needed to continue to support business operations and growing needs. The original M&O support contract estimated 36 hours per month of M&O support and included a one year option to extend. However, this amendment is to amend the contract for funds only. The additional funds represent an estimated 63 hours per month burn rate, which equates to 27 hours a month more than the original expected burn rate. Although, 30% of the overall funds on the M&O support contract were utilized to address post-Project activities, the increased estimated burn rate for the amendment is due to a higher than anticipated need for additional funds to address break/fix issues and potential enhancements. Also included is an additional 10% to address any unanticipated needs that may come up during the remaining term.

The Lottery is currently working on developing a new long-term M&O support contract to coincide with the new Epicor software and managed hosting services contract that was approved by the Commission in November 2023 and has a contract end date of December 31, 2027. Better terms and increased service level agreements are intended to be negotiated into the new long-term M&O support agreement to improve vendor accountability. Once the new long-term M&O support contract has been executed, this M&O support contract will be terminated.

Due to the proprietary nature of the E10 system, it is necessary to have a M&O support services contract in order to address break/fix issues, prevent significant system downtime and/or critical failures, and to support the implementation of enhancements and/or new functionality that may be needed by the business. Without this critical M&O support, enhancements, and new functionality of the E10 system, the Lottery could not operate or fulfill its mission. If the Lottery does not continue to fund these services, it will result in significant negative operational impacts and directly impact the Lottery's mission.

Exercising this amendment would increase costs by \$250,000 and would bring the total amount of the Agreement to \$484,000. The Lottery requests the Commission to approve additional expenditure authority of \$250,000 pursuant to the Lottery Regulations Section 8.6.3.A, which applies as follows:

“No contract amendment that brings the cumulative value of a contract to \$250,000 or more may be executed without prior Commission approval.”

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#### **RECOMMENDATION**

The Lottery recommends the Commission approve the proposed contract amendment to increase the expenditure authority by \$250,000 for Epicor M&O support services, to ensure these services continue without interruption. The new maximum contract expenditure amount will be \$484,000, and the term remains unchanged, with an expiration date of June 30, 2025.