



## M E M O R A N D U M

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**Date:** September 23, 2021

**To:** California State Lottery Commission

**From:** Alva V. Johnson, Director *AA*

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Executive Division

**Subject:** Item 8(e) –Amendment to the Epicor 10 Financial System Contract

### ISSUE

The California State Lottery (Lottery) seeks approval to amend its contract with Epicor Software Corporation (EPICOR) and increase the budget by \$1,184,320 to cover maintenance, a project schedule extension, and a budget contingency for the implementation of the Epicor 10 (E10) financial system upgrade and supporting applications. These funds will cover costs associated with moving the project go live date from September 2021 to March 2022, allow more time for user acceptance testing and go live preparation phases, and provide a budget contingency should the go live date extend to April 2022 due to unanticipated delays.

This item also serves to inform the California State Lottery Commission (Commission) of a miscalculation in the previous contract amendment request presented on March 25, 2021 and corrective measures the Lottery will take in the future to avoid similar issues.

### BACKGROUND

The Lottery entered into an agreement with Epicor with a contract term of December 24, 2018 to December 23, 2023 for the implementation of the E10 financial system and supporting applications. The agreement was amended on August 16, 2021 and the budget was increased by \$630,000 for a total contract amount of \$5,230,000. The contract work upgrades the Lottery's current on-premise Epicor 7.4 financial system, last upgraded in 2013, to the cloud-based Epicor 10 system. The project also includes the replacement of the Lottery's:

- Procurement system
- Several key business enhancement applications:
  - a retailer payment and collections system

- a budget and financial reporting tool, and
- an electronic document retention system.

In addition, the project updates critical business processes, redesigns the general ledger, and implements enhanced financial reports supported by dashboards and business activity queries.

The Lottery obtained Commission approval on March 25, 2021, to amend the agreement by \$630,000 to cover costs extending the go live schedule from May 2021 to September 2021. Subsequent to the Commission's approval, the Lottery identified a \$33,534 miscalculation in the amount requested. It was determined the discrepancies occurred as the Lottery and Epicor did not perform a robust cost management exercise and sync up expenditures and projections. This resulted in a difference of \$33,534 from what was presented to the Commission on March 25, 2021. Subsequently, the Lottery completed an extensive analysis and reconciled all invoices and future projected needs and validated with Epicor against the projected budget amounts left in the contract period. During this exercise it was discovered that the original contract funding did not include a 10% project contingency, which is industry standard for project budgeting. This was an oversight of the program team that was serving the department at the time. The project also expended \$25,740 on unanticipated change orders since the March 25, 2021 Commission meeting. The total of these three cost shortages/overages is \$154,000.

The implementation date delay is related to the extended time it took the Lottery to perform the "Proof of Concept" phase of the project and estimating the complexities/timeframes for user acceptance testing.

As the project proof of concept phase is now complete and the Lottery begins user acceptance testing, the additional contract funds will cover the following:

- Provide a 10% project contingency of \$154,000 to cover:
  - The calculation error of \$33,534 from the March 25, 2021 amendment request
  - The additional labor change orders of \$25,740
  - Any additional unanticipated project budget increases for the remainder of the project and the contract term through December 23, 2023
- Pay for six months of Epicor services with the extension of go live to March 2022, costs for post go live stabilization services, and to factor in additional costs if unanticipated delays cause the go live to extend to April.

## **DISCUSSION**

### **Corrective Action for Budget Miscalculation:**

Lottery has taken corrective measures to prevent future miscalculations from occurring by ensuring better communication with the vendor and enhanced internal practices. These steps better align Lottery's project budgeting and cost management activities with industry standard project management practices.

New Go Live Date:

The risk of completing a project on time is inherent in most large-scale projects involving multiple systems and integrations, unique business processes, a customized chart of accounts, and many users. Since the start of the E10 project, the project team understood the risk of completing the project on time due to the complexities of moving Epicor 7.4, an outdated (i.e., not fully supported) and significantly customized system, to a modern cloud-based financial system, while also transforming business processes to increase efficiencies. Adjusting the project milestones and the go live date to March 2022 is optimal to ensure robust system testing and user training, thereby mitigating the inherent risk in transitioning to a new financial system.

Since the previous amendment request to add contract funds on March 25, 2021, Lottery stakeholders and Epicor consultants have continued to work hard to complete the proof of concept phase. However, the amount of time to fully redesign Epicor 7.4 legacy processes into multiple Epicor 10 applications was underestimated. These estimates were made in good faith by the project team but, the project requires additional time to meet Lottery business requirements.

Another aspect which has impacted the schedule is the lack of detailed business requirements and design workflows at the beginning. As the project has progressed in the implementation phase, the project teams worked out process designs/workflows as the workflows were not previously developed. This has made it difficult to estimate and meet process completion targets as some required additional meetings/testing before stakeholders could approve. This resulted in the proof of concept (POC) phase taking a considerable amount of time and elongated the schedule.

Lottery and Epicor undertook an extensive effort to develop a comprehensive UAT plan based off business requirements. As a result, the project is now in robust user acceptance testing to resolve issues prior to go live. The additional time will enable staff to become more comfortable and experienced in working with the new business processes. This will also ensure the project has adequate time to fully test the various processes and design complexities inherent to an accounting system upgrade.

To ensure the Lottery can successfully implement the enhanced E10 financial accounting system the project go live date should be extended. This request to amend the contract for \$1,184,320 will allow the Lottery to cover costs associated with the new schedule and ensure a contingency should additional delays be encountered. The amendment will also

allow the Lottery to cover costs associated with the calculating error from the prior amendment and the labor overages resulting from project change orders.

**RECOMMENDATION**

Lottery staff recommends that the California State Lottery Commission approve an amendment to the contract for \$1,184,320 to cover costs associated with the prior amendment calculation error, change order labor costs, and maintenance/support for the six-month schedule extension to March 2022 for go live date of E10 implementation. Should additional delays occur, and the go live date be extended to April 2022, the Lottery will utilize the budget contingency to cover additional costs. This will increase the total contract amount to \$6,414,320.