



M E M O R A N D U M

Date: September 26, 2019

To: California State Lottery Commission

From: Alva V. Johnson, Director *AVJ* [Initials on file]

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Information Technology Services Division

Subject: Item 9(d) – Amendment for Internal Control System Contract

ISSUE

The California State Lottery's (Lottery) current Internal Control System (ICS) contract with Elsym Consulting, Inc. expires on October 13, 2019. In addition, a one-time hardware and software upgrade to the Lottery's ICS Servers is needed to ensure compatibility with the new IGT Global Solutions Corporation (IGT) gaming system platform, Aurora.

BACKGROUND

The Lottery's ICS performs critical audit functions, ensuring the integrity of the Lottery's online gaming systems by recording and demanding reconciliation of any anomalies that appear during the daily balancing process between the ICS and the online gaming system.

The services provided through the Lottery's ICS contract with Elsym include operation of a complex ICS that provides software, licenses, materials, and related-services and independently processes all daily sales, wagers, cancellations, validations, claims, inventory, coupons, and promotion transactions for both online and instant ticket transactions. The ICS is configured to receive and retrieve the required data in near real-time from IGT's enterprise gaming system and perform checks and balances to ensure

the integrity of the transactions processed by the Lottery Gaming System. A Back-up ICS and Test ICS are also included under the contract and configured to receive and retrieve data in near real-time. Additionally, the ICS contract provides tax system services for the Lottery, including tax forms, tax server support, and tax application software.

Elsym originally provided these services to the Lottery as a subcontractor for IGT, under the Lottery's gaming system contract. Based on recommended best practices, the Lottery entered into a direct contract with Elsym for ICS services in 2014. The contract includes 4 one-year options to extend the term, which have not been exercised. The maximum agreement amount is \$1,600,000.

DISCUSSION

Based on the quality of service that Elsym has provided and the criticality of the Lottery's ICS, Lottery staff recommends exercising the remaining option years to extend the contract term through October 13, 2023. This will ensure long term stability of the Lottery's ICS system. Based on past expenditures, Lottery staff estimates that an additional \$1,500,000.00 will be needed to cover the cost of services currently provided under the contract.

In addition, Lottery staff recommends amending the contract to include necessary ICS server upgrade services. The Lottery's ICS is a custom solution, developed by Elsym to interface with the Lottery's gaming system. To ensure that these systems continue to communicate properly when the Lottery's gaming system platform is upgraded to Aurora, the ICS server hardware and software must also be upgraded. With respect to these services, Elsym's responsibilities would include, but not be limited to, leading and managing the work effort, customization, installation, testing, complete data conversion, training, and live-run coaching. Elsym will provide these additional services for a cost of \$55,400.00.

RECOMMENDATION

Lottery staff recommends that the California State Lottery Commission approve the proposed amendment to extend the contract term by four years, add \$1,500,000.00 in funds, and provide for ICS server upgrade services under the Lottery's ICS contract with Elsym. If approved, the amended contract term will be October 14, 2014 through October 13, 2023, and the maximum contract amount will be \$3,100,000.00.