INTERNAL REVENUE SERVICE

TO: MR. ANDRE L. RE, NATIONAL DIRECTOR, COMPLIANCE SPECIALIZATION

FROM: N. SRINIVASAN

SUBJECT: REVIEW OF THE DOCUMENT "PRIME PROGRAM CRM EXAM—PRELIMINARY BUSINESS CASE"

As desired by you, I have reviewed the document titled "PRIME Program CRM Exam—Preliminary Business Case"—Document No. PRIME-EXAM23-C44-003.

After reviewing this document, one cannot but come to the inescapable conclusion that this is nothing but a feeble attempt to endow a patina of respectability to the selection of a preordained alternative by hastily throwing together a set of ill-founded assumptions, arbitrary numbers and torturing those numbers until they confessed-- to sins that they did not commit-- all in the name of misguided quantitative analysis. This incoherent, inchoate document does not even give the impression of having been proofread. A flawed analysis will lead to an equally flawed decision, if not worse. My specific comments follow.

1. General Comment.

   This document postulates several alternatives most of them centered on the use of one or more commercial-off-the-shelf (COTS) products. It is not clear, especially in the case of those alternatives that use more than one COTS product, what the functions of those COTS products will be. For example, in the case of Alternative 3 that advocates the use of multiple COTS solutions, this document does not say what these COTS products will do. Will they all be doing tax computations, or will they be doing other things besides tax computations? This document, which purports to present a "Business Case", should as a minimum answer some of these elementary questions the answers to which are not self evident. It would have been enlightening if this document had included a list of functions by category for which the COTS products are being pursued.

2. “PROJECT INFORMATION”, “SCOPE”, Page 9, First Paragraph.

“The CRM Examination Modernization project was defined ……. to incrementally redesign processes and build systems that would provide superior case resolution tools ……...”

You do not “incrementally” re-design processes. You redesign business processes in one shot to extract maximum efficiencies and consequent business benefits. After you redesign business processes, you may implement the systems incrementally. This is either a symptom of muddled thinking or a lack of proofreading.

3. Figure 1, “CRM Exam Functionality Options”

This diagram shows functionality such as “Forums and Newsgroups”, “Net Phone”, “Net Meetings”, and “IRS Chat Rooms”. It is not clear whether these kinds of functionality are really needed. Maybe they are needed, but a justification for their inclusion should have been added. If my memory serves me right, the original intent was to provide a “work center” for the Revenue Agents who work on large cases. All these added functionality amounts to expanding the scope, otherwise also known as “gold plating”, “requirements creep” and so on, all of which lead to the same thing—project failure. The e-mail is listed under two different categories. One would think that a single e-mail system would suffice, but then again, this may be a symptom of a lack of proofreading.

On the same Figure 1, does “IRM” stand for the Internal Revenue Manual? Again, if my memory serves me right, one of the desired functions was the ability to enter timesheet information. That function has been omitted.

4. Page 10, “SCOPE”

“Recommend a tax computation solution which would represent Release 1.0 of the CRM Exam modernization initiative.”

If the above sentence represents the project scope, one may be led to think that the proposed COTS solutions are intended to perform "tax computations”. By reading this document, it is not entirely clear if this is really the case. For example, Alternative 3 proposes to use multiple COTS packages. Are we to assume that these multiple COTS packages will all be doing the same thing, namely, tax computations? If so, why? If they will be doing different things, what are they? This document which lays out the “business case”, is silent on this issue.

In this context, another interesting question that naturally arises is regarding policy. Tax computations are done, or at least ought to be done, according to tax laws enacted by the United States Congress. As the custodian of the tax laws, the Internal Revenue Service as part of its mission is required to provide the interpretation of those laws that have a tendency to change from year-to-year. It is not clear from reading this "Business Case" whether the COTS packages we are seeking will supplement or supplant that role. Some impartial observers may be of the opinion that the interpretation of the tax laws cannot be entirely abdicated to an outside commercial vendor. Unless there is a resource within the IRS to provide such an interpretation and embody such an interpretation in a tax computation package, there may not be a benchmark against which the results of the COTS packages may be compared. The consequences are obvious and need no further elaboration. Unfortunately, these issues have not been brought forth, analyzed, and laid to rest, which you would normally expect in preparing a business case.

5. "CONSTRAINTS", Page 17.

"Any solution employed must apply 'Official' IRS positions or interpretations of law."

By reading this document, it is difficult to say how this constraint has been applied in the choice and recommendation of the alternatives, other than resorting to the power of prayer.

6. "ANALYSIS OF ALTERNATIVES", Page 18.

This business case does not include any descriptions of the five alternatives and what they entail. Without this detail, it is not possible to make any assessments on the substance or the lack thereof.

7. "SUMMARY OF ANALYSIS", pages 18 through 20.

It is not clear how the Lifecycle Cost Estimates were prepared. This document does not disclose the methodology and the various numbers that went into these computations. Without these details, it is not possible to attach much credibility to any of these results. Page 18 refers to Appendices 1-6. These Appendices are not to be found in this document.

Several factors contribute in determining lifecycle costs—the cost elements, the years in which those cost elements are applied, the discount rate, the time span used for the lifecycle, the benefits and the years in which those benefits are claimed. This document does not disclose any of this data. Without an impartial scrutiny of this data and the methodology used to process this data, it is difficult to attach much credibility to this analysis and its recommendation.

8. "Table 4: Cost Breakdown by Alternative", page 19.

The addition in the third row of this Table is wrong and should be corrected. Instead of 44,056, it should be 61,340.

9. "Qualitative Benefits", Page 21.

"Taxpayers would no longer need to perform computations for the examiners."

"Taxpayers would no longer need to incur additional representation costs to verify tax calculation accuracy."

It is not clear what the above statements mean, but whatever they mean, they are certainly profound. Since there have been no statements provided to support the above assertions, one can only infer that there will not be any disputes because both the taxpayers and the IRS will be using the same tax computation package that will invariably lead to the same results. However, this does not prove that the tax computations will indeed be correct. It is strange and odd that this remarkable "benefit" will be achieved by depriving the IRS of the requisite tools to independently compute the taxes owed based on the tax law, with the added "benefit" that there will not be any appeals either. That will indeed qualify as a remarkable feat of reengineering!

10. "Risk Analysis", Page 22.

This section borders on the occult.

There are four Tables in this section, one for each alternative other than the first, that assign a "Probability of Occurrence" to seven events such as cost, schedule, technical feasibility, technical obsolescence, benefits, change management, and procurement. The three probability ratings are "low", "Medium, and "high". Those readers with a rational intellectual bent may find their cerebral processes severely stressed upon encountering the random assignment of the so-called probabilities with reckless abandon. These esoteric assignments are nothing short of a remarkable stroke of genius in transforming technology into theology.

One of the foundational principles in assigning probabilities is that these probability assignments must be internally consistent—i.e. they must "cohere". An inspection of these Tables shows that these probability assignments do not make much sense. For example, let us compare the probability assignment for "Technical

Feasibility” in Tables 6 and 7. Table 6 corresponds to a “Single COTS” solution, while Table 7 corresponds to a “Multiple COTS” solution. It is only reasonable to expect that a multiple COTS solution should bear a higher degree of technical risk compared to a single COTS solution. However, both the alternatives have been assigned a rating of “Low” for Technical Feasibility. A similar reasoning applies *mutatis mutandis* to “Cost”—you would expect a multiple COTS solution to cost more than a single COTS solution. One would also think that the risk of integrating multiple COTS products as higher than integrating a single COTS product into the overall solution mix. In other words, these probability measures have not been calibrated. The emperor has no clothes!

By the time we reach “Table 9: Risk Assessment for Alternative 5”, we have arrived close to the pinnacle of mendacity. Couple of sentences quoted from that Table should suffice:

> “Due to change management issues, this solution would probably not be used and, therefore, the benefits would not be achieved.”

This Table is supposed to assign values to risk, and based on those combined scores, accept or reject that alternative. Instead of doing that, the above sentence clearly starts out by rejecting the solution based on some esoteric doctrine not amenable to mere mortals. Pray tell what those “change management issues” are. This is not a “Business Case” --it is a burlesque.

“The skill sets exist internally and externally to perform this alternative. However, due to the high degree of uncertainty regarding how involved it would be to add functionality to this application, the risk cannot be considered low.”

Let’s see. The skill sets exist both internally and externally to implement this alternative, and yet, “there is a high degree of uncertainty regarding how involved it would be ….” Got that? If the skill sets exist internally and externally, where is the uncertainty? This must have been born out of some mystical experience.

Throwing darts would have been better. This is grotesque!

11. “RECOMMENDATION”, Tables 10 and 11.

Finally, we arrive at the *summum bonum* of this jejune document.

Table 10 has a total of four columns: Cost, Benefit, ROI, and Risk.

In creating the Table 10, the qualitative assessment of risks as “low”, “medium”, and “high” in the preceding four Tables 6 through 9 have been miraculously transformed into numbers 1 through 5. In addition, one can only presume that this leap from three levels of granularity to a finely graded five levels of granularity must have involved some esoteric concepts which we are not entitled to know. One can rationalize going from five levels to three. However, expanding three levels into five is a stretch. These numbers have been placed in Table 10 under a column appropriately titled as “Risk”. Table 11 applies “weights” to the four entities Cost, Benefit, ROI, and Risk to derive a so-called combined score to select an alternative worthy of implementation.

In logic, there is a widely recognized principle called “validity”. For an argument to be valid, it must be derived from a set of axioms or premises that are not mutually contradictory, followed by a sequence of well-formed formulas. If such is the case, when the premises are true together with the sequence of well-formed formulas, the argument leads to a true conclusion. That’s the essence of a valid argument. This meretricious document that purports to present a “Business Case” employs such a perverted approach, it defies ones credulity. Let’s see why. As stated before, Table 10 has four columns: Cost, Benefit, ROI, and Risk. These four columns are not independent. Not only that, they are highly correlated, to wit, ROI (Return on Investment) includes cost, and of course in computing “Risk” cost has already been taken into account in Tables 6 through 9. There is also another column in this ignominious Table called “Cost”—actually the very first column. Three of the four columns include “Cost”! And of course, there is no clue in this document on how valid these cost estimates are!

This is not only double jeopardy, but constitutes triple jeopardy!

There is yet another not too subtle point involved here, namely, the inclusion of “Cost” as an absolute measure in scoring the alternatives. It is fairly well known in elementary financial analysis that “Cost” by itself does not play a role in decisions involving investments. “Cost” must be taken together with “Benefits”—that is, stated in another way, the ratios such as Cost/Benefit or the Return on Investment (ROI) that matter. To illustrate this point let us consider two investments. The first one involves an investment of $1000 that promises a return of $1000, let us say. The second alternative involves an investment of $10,000 that is estimated to provide a return of $1,000,000. Given these two choices, which one will a rational investor choose? The answer is obvious. A rational investor will not use the “Cost” alone as a decision criterion. And yet, that is precisely what the methodology used in this business case does. Maybe I am missing something here. I am baffled and flabbergasted because I cannot bring myself to believe that a single document such as this one can contain so much nonsense.

In the final analysis, one cannot but ask, “All this for what?” To justify the selection of Alternative 3 that calls for buying multiple COTS products and integrating them? Even after all the twists, turns, and convoluted, untenable arguments, if one looks at the final scores in Table 11 titled “Weighted Solution Alternatives Ranking”, the alternatives 2, 3, 4, and 5 have the scores of 2.4, 2.3, 2.5, and 2.6 respectively. The scores differ only to the right of the decimal point, and that too by one tenth!

Making a decision based on the recommendation contained in this document is like crossing the river on the back of an alligator.

As you very well know, I don't have any axes to grind, and I don't have my own preferred alternatives to peddle.

If you have any questions, please feel free to contact me. As always, I am here to serve.