

January 6, 2012

MEMORANDUM TO: Stephen D. Dingbaum  
Assistant Inspector General for Audits

FROM: Michael R. Johnson, Director **/RA/**  
Office of New Reactors

SUBJECT: STATUS OF RECOMMENDATIONS AND STAFF RESPONSE TO  
THE OFFICE OF THE INSPECTOR GENERAL'S AUDIT OF THE  
U.S. NUCLEAR REGULATORY COMMISSION'S VENDOR  
INSPECTION PROGRAM (OIG-10-A-20)

This memorandum provides the U.S. Nuclear Regulatory Commission (NRC) staff's updates for the remaining open recommendations from the Office of the Inspector General's (OIG) audit OIG-10-A-20, "Audit of NRC's Vendor Inspection Program," dated September 28, 2010. The staff continues to implement actions in response to OIG's audit and believes that it remains responsive to OIG's recommendations. Enclosure 1 to this memorandum presents a history of correspondence for this audit.

**Recommendation 1:**

Develop an Office of New Reactors (NRO) Vendor Inspection Program planning document that:

- a. Articulates a clear purpose for the Vendor Inspection Program; and
- b. Establishes metrics to evaluate the success of the Vendor Inspection Program.

**OIG analysis dated July 27, 2011:**

The proposed action meets the intent of OIG's recommendation. OIG will close this recommendation upon review of the final program plan, including the items referenced in the plan, such as the vendor selection methodology, vendor inspection program plan, and operating plan linkages and revisions to Inspection Manual chapters (IMC) and/or office instructions.

Status: Resolved

CONTACT: Victor Hall, NRO/DCIP  
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Update:

Actions taken: NRO developed the Vendor Inspection Program (VIP) plan, which articulates the purpose of the vendor inspection program. The plan includes strategies for enhanced vendor outreach and communications, vendor identification, and vendor selection. The Division of Construction Inspection and Operational Programs (DCIP) approved the plan on November 17, 2011, and it is now being implemented. The plan is intended to remain a living document. It is also being reviewed for inclusion in IMCs and office instructions. The staff expects to complete its review of IMCs and office instructions by April 2012. Enclosure 2 to this memorandum includes the current revision of the plan (Agencywide Documents Access and Management System (ADAMS) Accession No. ML12006A008).

DCIP included all the metrics noted in the VIP plan in its fiscal year 2012 operating plan. The staff believes that it has completed the actions related to this recommendation.

**Recommendation 2:**

Develop and document a methodology to identify vendors that supply safety-related parts and services to the nuclear industry with Appendix B quality assurance programs.

OIG analysis dated July 27, 2011:

The proposed action and update meets the intent of the recommendation. As noted above, the staff has developed a draft methodology to identify vendors that supply safety-related parts and services to the nuclear industry, to include coordination with the Office of Nuclear Reactor Regulation (NRR) and regional offices. This recommendation will be closed when OIG receives the final vendor identification methodology and assesses its effectiveness and implementation.

Status: Resolved.

Update:

Actions taken: NRO coordinated with NRR to develop and document a methodology to identify vendors that supply safety-related parts and services to the nuclear industry. DCIP approved the methodology on October 21, 2011, and it is being implemented as scheduled. The methodology is included in the VIP plan, discussed in Recommendation 1, and is included as Appendix A to Enclosure 2 of this memorandum.

The staff expects to complete the next two milestones in April 2012. First, the staff is establishing a page on its public Web site that allows vendors to voluntarily provide information to the NRC. Second, the staff is creating an internal database to store vendor information and to facilitate vendor communication and selection.

**Recommendation 3:**

Develop and document a risk-informed methodology to select vendors for inspection.

**OIG analysis dated July 27, 2011:**

The staff's proposed action continues to meet the intent of the recommendation. This recommendation will be closed when OIG receives the updated guidance and determines that it includes a risk-informed methodology to select vendors for inspection.

Status: Resolved.

**Update:**

Actions taken: NRO coordinated with NRR to develop and document a risk-informed methodology to select vendors for inspection. The methodology assesses known vendors supplying safety-related items and services to the domestic nuclear power industry by using a set of weighted attributes. For this methodology, risk-informed means the risk significance associated with the potential failure of components. The use of Probabilistic Risk Assessment insights is included in the methodology as an additional consideration to the extent practicable, and as available. DCIP approved revision 0 of the methodology on October 20, 2011, and it is being implemented as scheduled. The methodology is included in the VIP plan, discussed in Recommendation 1, and is included as Appendix B to Enclosure 2 of this memorandum.

**Recommendation 4:**

Develop and use a vendor outreach/communications plan.

**OIG analysis dated July 27, 2011:**

OIG reviewed the Strategy for Enhanced Vendor Outreach and Communications and has determined the proposed strategy should help NRO better focus vendor outreach and communications efforts and verify the degree to which these efforts are successful. The staff indicated its intention to incorporate the outreach and communications strategy into the NRO vendor inspection program plan. As a result, this recommendation will be closed pending completion and implementation of the NRO vendor inspection program plan inclusive of the outreach and communications strategy, or when agency staff provide other evidence that the outreach and communications strategy is being used.

Status: Resolved.

**Update:**

Actions taken: NRO coordinated with NRR to develop and use a vendor outreach/communications plan. DCIP approved the plan, and it is being fully implemented. The Strategy for Enhanced Vendor Outreach and Communications is included in the VIP plan, discussed in Recommendation 1, and is included as Appendix C to Enclosure 2 of this memorandum.

Recent accomplishments from the plan include the following:

- improving the accessibility of the portions of the NRC's public Web site relevant to vendor oversight
- categorizing findings and violations from NRC vendor inspection reports on the public Web site
- creation of a frequently asked questions page on the public Web site which includes questions received from vendor conferences and other NRC outreach meetings
- publication of the first annual electronic newsletter

**Recommendation 5:**

Align NRC guidance and regulations to clarify acceptance methods for commercial-grade dedication.

**OIG analysis dated July 27, 2011:**

This recommendation remains resolved. OIG notes the staff's additional efforts to coordinate changes to Part 21 between NRO and NRR. As we noted earlier, developing a Commission paper with options for clarifying 10 CFR Part 21 requirements is an important initial step towards completion of the recommendation; however, the steps taken after the Commission paper is developed are also important. This recommendation will be closed when OIG receives the Commission paper and determines that the next steps—to include implementation of those actions necessary to align the guidance and the regulation to clarify acceptance methods for commercial-grade dedication—has been performed.

Status: Resolved.

**Update:**

Actions taken and planned: NRO issued SECY-11-0135, "Staff Plans To Develop the Regulatory Basis for Clarifying the Requirements in Title 10 of the *Code of Federal Regulations* Part 21, 'Reporting of Defects and Noncompliance,'" on September 29, 2011. Enclosure 3 to this memorandum includes SECY-11-0135 (ADAMS Accession No. ML112430138).

In the Commission paper, the staff affirmed its commitment to pursuing Title 10 of the *Code of Federal Regulations* (10 CFR) Part 21 rulemaking. The paper notes that the staff expects to complete regulatory basis development by September 2012. The staff plans to submit the proposed rule to the Commission by September 2013 and the final rule to the Commission by September 2014. The paper also notes that the agency's priority for 10 CFR Part 21 rulemaking may be impacted by potential rulemakings that the Commission may direct in response to the Near-Term Task Force report, "Recommendations for Enhancing Reactor Safety in the 21<sup>st</sup> Century," dated July 12, 2011 (ADAMS Accession No. ML111861807).

The staff is on schedule with its proposal in the Commission paper. On November 29, 2011, the 10 CFR Part 21 focus group discussed its next steps for regulatory basis development,

including clarification of acceptance methods for commercial-grade dedication. NRO has also begun coordinating with the Office of Nuclear Regulatory Research for the development of NRC guidance for acceptable methods for evaluating and reporting and for commercial-grade dedication.

**Recommendation 6:**

Issue regulatory guidance to clarify sampling expectations for commercial-grade dedication.

**OIG analysis dated July 27, 2011:**

This recommendation remains resolved. OIG notes the staff's additional efforts to coordinate changes to Part 21 between NRO and NRR. As we noted earlier, developing a Commission paper with options for clarifying 10 CFR Part 21 requirements is an important initial step towards completion of the recommendation; however, the steps taken after the Commission paper is developed are also important. This recommendation will be closed when OIG receives the Commission paper, and determines that the next steps—to include implementation of the actions necessary to clarify sampling expectations for commercial-grade dedication—has been performed.

Status: Resolved.

**Update:**

Actions taken and planned: As noted above for Recommendation 5, the staff issued SECY-11-0135, and the 10 CFR Part 21 focus group is moving forward to develop and issue regulatory guidance to clarify sampling expectations for commercial-grade dedication to align with 10 CFR Part 21 rulemaking.

**Recommendation 7:**

Issue regulatory guidance describing a process that NRC considers acceptable for compliance with Part 21.

**OIG analysis dated July 27, 2011:**

This recommendation remains resolved. OIG notes the staff's additional efforts to coordinate changes to Part 21 between NRO and NRR. As we noted earlier, developing a Commission paper with options for clarifying 10 CFR Part 21 requirements is an important initial step towards completion of the recommendation; however, the steps taken after the Commission paper is developed are also important. This recommendation will be closed when OIG receives the Commission paper and determines that the next steps—to include implementation of the actions necessary to describe a process that NRC considers acceptable for compliance with Part 21—has been performed.

Status: Resolved.

Update:

Actions taken and planned: As noted above for Recommendation 5, the staff issued SECY-11-0135, and the 10 CFR Part 21 focus group is moving forward to develop and issue regulatory guidance describing a process that the NRC considers acceptable for compliance with 10 CFR Part 21 that will align with the 10 CFR Part 21 rulemaking.

**Recommendation 8:**

Clearly indicate via the NRC public Web site how and when Part 21 has changed.

Status: Closed.

**Recommendation 9:**

Develop guidance that clarifies the requirements for vendors on how to approve accredited commercial-grade calibration laboratories for safety-related applications.

OIG analysis dated July 27, 2011:

The proposed action meets the intent of the recommendation. Therefore, this recommendation is resolved. It will be closed after OIG reviews the Safety Evaluation Report (SER) and related generic communications.

Status: Resolved.

Update:

Actions taken and planned: The staff continues to work towards clarifying the requirements for vendors on how to approve accredited commercial-grade calibration laboratories for safety-related applications. The staff previously noted that it anticipated an industry submittal by August 31, 2011. However, industry is not expected to provide its submittal until May 2012. The staff still plans to issue a SER and generic communications within 6 months of receiving an industry submittal. The staff continues to follow industry developments and to engage the industry as necessary.

On September 14, 2011, the staff met with the Nuclear Energy Institute (NEI) at the Quality Assurance Task Force meeting, in Washington, D.C., to discuss the industry's proposal for expanded use of internationally accredited calibration and testing laboratories. NEI submitted a letter to the NRC, dated September 16, 2011, describing the industry's proposed approach. NEI's letter (ADAMS Accession No. ML112700589) is included as Enclosure 4 to this memorandum. On October 4, 2011, the NRC responded to NEI's letter describing the NRC's general support of NEI's approach. The NRC's response letter (ADAMS Accession No. ML112710405) is included as Enclosure 5 to this memorandum.

NEI recently informed the NRC staff of completion of the first milestone from the September 16, 2011, letter: In December 2011, the International Laboratory Accreditation

Cooperation Executive Committee approved a request for NEI to join the group as a stakeholder.

The NRC is planning a public meeting in early 2012 to continue its dialogue with stakeholders and to work towards minimizing any further delays.

Target date for completion: As noted above, the staff anticipates an industry submittal by May 2012, and will issue an SER and generic communications within 6 months.

**Recommendation 10:**

Develop and implement a formal agencywide strategy and plan in order to monitor and evaluate counterfeit, fraudulent, and suspect items (CFSI).

**OIG analysis dated July 27, 2011:**

The proposed action continues to meet the intent of the recommendation. This recommendation will be closed when OIG receives the formal agencywide strategy and plan, and determines it contains the elements necessary to monitor and evaluate CSFI.

Status: Resolved.

**Update:**

Actions Taken: The staff issued SECY-11-0154, "An Agencywide Approach to Counterfeit, Fraudulent, and Suspect Items," dated October 28, 2011 (ADAMS Accession No. ML112200150). The paper informs the Commission of the staff's plans to identify and implement proactive strategies to detect and prevent the intrusion of CFSI into equipment, components, systems, and structures regulated by the NRC. Enclosure 6 to this memorandum includes SECY-11-0154.

The staff continues to implement the strategy outlined in SECY-11-0154 and believes that it has completed the actions related to this recommendation.

Enclosures:

As stated

cc: Chairman Jaczko  
Commissioner Svinicki  
Commissioner Apostolakis  
Commissioner Magwood  
Commissioner Ostendorff  
SECY  
EDO

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Commissioner Ostendorff  
SECY  
EDO

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**ADAMS Accession No:** ML12004A064 (package)

\*via e-mail

NRO-002

<b>OFFICE</b>	NRO/DCIP/CEVB	NRO/DCIP/CQAB	NRO/DCIP/CEVB	NRO/DCIP/CQAB	NRO/DCIP/CMVB
<b>NAME</b>	SSmith (VHall for)	VHall	RRasmussen (DBollock for)	KKavanagh (FTalbot for)	ERoach (DBollock for)
<b>DATE</b>	12/27/2011	12/27/2011	12/27/2011	12/28/2011	12/27/2011
<b>OFFICE</b>	NRR/DIRS	QTE*	NRO/DCIP	OGC*	NRO
<b>NAME</b>	FBrown (JLubinski for)	JDougherty	LDudes		MJohnson
<b>DATE</b>	01/04/2012	12/16/2011	12/30/2011	12/31/2011	01/06/2012

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PROGRAM (OIG-10-A-20)

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- ADAMS Accession No: ML102950601
- January 11, 2011 – *Memo to the EDO*: STATUS OF RECCOMENDATIONS: AUDIT OF THE NUCLEAR REGULATORY COMMISSION'S VENDOR INSPECTION PROGRAM (OIG-A-20)
  - ADAMS Accession No: ML110130015
- May 26, 2011 – *Memo to the Assistant Inspector General for Audits*: STATUS OF RECOMMENDATIONS AND STAFF RESPONSE TO THE OFFICE OF THE INSPECTOR GENERAL'S AUDIT OF THE U.S. NUCLEAR REGULATORY COMMISSION'S VENDOR INSPECTION PROGRAM (OIG-10-A-20)
  - ADAMS Accession No: ML111290142
- July 27, 2011 – *Memo to the EDO*: STATUS OF RECOMMENDATIONS: AUDIT OF THE NUCLEAR REGULATORY COMMISSION'S VENDOR INSPECTION PROGRAM (OIG-10-A-20)
  - ADAMS Accession No: ML11209C350

Enclosure 1