



**UNITED STATES**  
**NUCLEAR REGULATORY COMMISSION**  
WASHINGTON, D.C. 20555-0001

**OFFICE OF THE  
INSPECTOR GENERAL**

March 9, 2012

MEMORANDUM TO: R. William Borchardt  
Executive Director for Operations

FROM: Stephen D. Dingbaum */RA/*  
Assistant Inspector General for Audits

SUBJECT: STATUS OF RECOMMENDATIONS: AUDIT OF THE  
NUCLEAR REGULATORY COMMISSION'S VENDOR  
INSPECTION PROGRAM (OIG-10-A-20)

REFERENCE: DIRECTOR, OFFICE OF NEW REACTORS,  
MEMORANDUM DATED JANUARY 6, 2012

Attached is the Office of the Inspector General's (OIG) analysis and status of recommendations as discussed in the agency's response dated January 6, 2012. Based on this response, recommendations 1, 2, 5, 6, 7, and 9 are resolved and recommendations 3, 4, and 10 are closed. Recommendation 8 was previously closed. Please provide an updated status of the resolved recommendations by August 6, 2012. If you have questions or concerns, please call me at 415-5915, or RK Wild, Team Leader, at 415-5948.

Attachment: As stated

cc: N. Mamish, OEDO  
K. Brock, OEDO  
J. Arildsen, OEDO  
C. Jaegers, OEDO

## **Audit Report**

### **AUDIT OF NRC'S VENDOR INSPECTION PROGRAM**

**OIG-10-A-20**

#### **Status of Recommendations**

Recommendation 1:

Develop an 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.

Agency Response Dated  
January 6, 2012:

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. The [agency's January 6, 2012, response] 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.

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#### **Status of Recommendations**

Recommendation 1 (continued):

**OIG Analysis:**

The proposed action meets the intent of OIG's recommendation. OIG will close this recommendation upon issue and OIG review of the proposed RIS as noted on page A-1 of the Vendor Inspection Program Plan, dated November 2011. Additionally, closure will also be contingent upon OIG review of the NRO vendor Web site and activation of the NRO database, all scheduled for the period April-June 2012.

**Status:**

Resolved.

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### **AUDIT OF NRC'S VENDOR INSPECTION PROGRAM**

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##### **Status of Recommendations**

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.

Agency Response Dated  
January 6, 2012:

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 [the agency's January 6, 2012, response].

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.

OIG Analysis:

The proposed action meets the intent of OIG's recommendation. OIG will close this recommendation upon issue and OIG review of the proposed RIS cited on page A-1 of the Vendor Inspection Program Plan, OIG review of the NRO vendor Web site, and activation of the NRO database, all scheduled for the period April-June 2012.

**Status:**

Resolved.

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#### **Status of Recommendations**

Recommendation 3: Develop and document a risk-informed methodology to select vendors for inspection.

Agency Response Dated  
January 6, 2012:

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 [the agency's January 6, 2012, response].

OIG Analysis:

OIG's recommendation required the development of a risk-informed methodology for vendor selection. OIG notes that NRO's methodology has incorporated a number of weighted attributes associated with a risk-informed methodology, including frequency of inspections, outside audits, number of licensees supported by the vendor and Probabilistic Risk Assessment. These actions have met the intent of the recommendation.

**Status:**

Closed.

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#### **Status of Recommendations**

Recommendation 4: Develop and use a vendor outreach/communications plan.

Agency Response Dated  
January 6, 2012:

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 [the agency's January 6, 2012, response].

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

OIG Analysis:

These actions have met the intent of the recommendation and the recommendation is considered closed. However, OIG notes that the vendor link located in the quicklink box on the Web pages for new reactors and operating reactors no longer exists.

OIG reviewed the Strategy for Enhanced Vendor Outreach and Communications and notes this strategy should help focus vendor outreach and communications efforts and verify the degree to which these efforts are successful. Additionally, staff could consider further improvement. For example, staff plan to "use the number of attendees at the conferences to measure the level of interest and success of the conference," but the number of conference attendees could be an accurate measure only if NRC knew how many vendors exist. An approach that measures effectiveness by

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#### **Status of Recommendations**

Recommendation 4 (continued):

dividing the number of attendees by the number of existing vendors could be more helpful.

Further, the plan to compile a list of vendors, and use the list to solicit stakeholder interest, should also enhance outreach efforts provided the plan is also maintained and updated at a specified frequency.

**Status:**

Closed.

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#### Status of Recommendations

Recommendation 5: Align NRC guidance and regulations to clarify acceptance methods for commercial-grade dedication.

Agency Response Dated  
January 6, 2012:

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.

OIG Analysis:

This recommendation remains resolved. OIG notes the staff's issuance of the Commission paper, SECY-11-0135, "Staff Plans To Develop the Regulatory Basis for Clarifying



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#### **Status of Recommendations**

##### Recommendation 5 (continued)

the Requirements in Title 10 of the Code of Federal Regulations Part 21, 'Reporting of Defects and Noncompliance.'" 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—the issuance of a regulatory basis, publication of a proposed rule and draft regulatory guides, and the issuance of a final rule and final regulatory guides—are also important. This recommendation will be closed when OIG 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.

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#### **Status of Recommendations**

Recommendation 6: Issue regulatory guidance to clarify sampling expectations for commercial-grade dedication.

Agency Response Dated  
January 6, 2012:

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.

OIG Analysis:

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.

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#### **Status of Recommendations**

Recommendation 7: Issue regulatory guidance describing a process that NRC considers acceptable for compliance with Part 21.

Agency Response Dated  
January 6, 2012:

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. The staff considers "evaluating and reporting" to be paramount to the clarification of 10 CFR Part 21. This has been the central topic of two of the staff's meetings of the Part 21 Focus Group and will be a central issue in the Commission paper.

OIG Analysis:

This recommendation remains resolved. OIG notes the staff's issuance of the Commission paper, SECY-11-0135. 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—the issuance of a regulatory basis, publication of a proposed rule and draft regulatory guides, and the issuance of a final rule and final regulatory guides—are also important. This recommendation will be closed when OIG 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.

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##### **Status of Recommendations**

Recommendation 9: Develop guidance that clarifies the requirements for vendors on how to approve accredited commercial-grade calibration laboratories for safety-related applications.

Agency Response Dated  
January 6, 2012:

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 the agency's original January 6, 2012, response.

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.

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#### **Status of Recommendations**

Recommendation 9 (continued):

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.

**OIG Analysis:**

The proposed actions meet the intent of the recommendation. The recommendation will be closed after OIG reviews the proposed SER and related generic communications to determine if they fulfill OIG's recommendation.

**Status:**

Resolved.

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#### **Status of Recommendations**

Recommendation 10: Develop and implement a formal agencywide strategy and plan in order to monitor and evaluate CSFI.

Agency Response Dated  
January 6, 2012:

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 [of the agency's January 6, 2012, response] 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.

OIG Analysis:

The agency's actions meet the intent of OIG's recommendation for formulating a strategy and plan for addressing the threat posed by CFSI. The publication of SECY-11-0154 shows an agencywide approach, including the establishment of formal working groups to address supply chain, communications, responses and cyber-security issues related to CFSI. In addition, staff proposals to hold recurring meetings, issue generic communications and to develop and clarify existing agency guidance in relation to CFSI will further strengthen the agency's approach to addressing CSFI. This recommendation is considered closed.

**Status:**

Closed.