



OFFICE OF THE
INSPECTOR GENERAL

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

January 24, 2018

MEMORANDUM TO: Victor M. McCree
Executive Director for Operations

FROM: Dr. Brett M. Baker */RA/*
Assistant Inspector General for Audits

SUBJECT: STATUS OF RECOMMENDATIONS: AUDIT OF NRC'S
REGULATORY OVERSIGHT OF SPECIAL NUCLEAR
MATERIALS (OIG-03-A-15)

REFERENCE: DIRECTOR, OFFICE OF NUCLEAR MATERIAL SAFETY
AND SAFEGUARDS, MEMORANDUM DATED
DECEMBER 29, 2017

Attached is the Office of the Inspector General's (OIG) analysis and status of report recommendations as discussed in the agency's response dated December 29, 2017. Based on this response, recommendations 1 and 3 (from a 2003 audit report) remain in a resolved status. All other recommendations were previously closed.

Recommendations 1 and 3 will be closed once the agency provides, and OIG verifies, information confirming that all corrective actions have been finalized.

Please provide an updated status of recommendations 1 and 3 by July 17, 2018.

If you have any questions or concerns, please call me at (301) 415-5915 or Sherri Miotla, Team Leader, at (301) 415-5914.

Attachment: As stated

cc: R. Lewis, OEDO
H. Rasouli, OEDO
J. Jolicoeur, OEDO
J. Bowen, OEDO
EDO_ACS_Distribution Resource

Audit Report

AUDIT OF NRC'S REGULATORY OVERSIGHT OF SPECIAL NUCLEAR MATERIALS

OIG-03-A-15

Status of Recommendations

Recommendation 1: Conduct periodic inspections to verify that material licensees comply with material control and accounting (MC&A) requirements, including, but not limited to, visual inspections of licensees' special nuclear material (SNM) inventories and validation of report information.

Agency Response Dated
December 29, 2017:

Remaining condition:

Document the basis for risk-informing the MC&A program (and apply it to the program) with respect to conducting periodic inspections.

December 2017 Status:

In the February 7, 2006, memorandum, the Office of the Inspector General (OIG) stated that two of the three conditions identified by OIG that needed to be met to close this recommendation have been satisfied. The remaining condition is the need to complete documentation of the basis for risk informing the MC&A program (and apply it to the program) with respect to conducting periodic inspections. In a subsequent memorandum dated August 24, 2006, OIG requested an estimated completion date for this recommendation.

In SECY-05-0143, "Proposed Changes to the Material Control and Accounting Program," the staff recommended that the Commission approve the staff's proposed enhancements to the MC&A regulations, inspection program, and licensing process. This was further delineated in the MC&A rulemaking plan (SECY-08-0059, "rulemaking Plan: part 74 – Material Control and Accounting of Special Nuclear Material") dated April 25, 2008. The staff requirements memorandum for SECY-08-0059 was issued on February 5, 2009, directing the staff to revise and consolidate current MC&A regulations into Part 74. The Commission chose not to proceed with including the new risk-informed aspects in the revised rule. In accordance with Commission direction, the staff developed revisions that consolidated and clarified the regulations, and a

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Status of Recommendations

Recommendation 1 (cont):

proposed rule [NRC-2009-0096], entitled "Amendments to Material Control and Accounting Regulations," and associated guidance documents [NRC-2013-0195] were completed and published in the *Federal Register* on November 8, 2013. Completion of this rulemaking has been delayed due to limited resources. Staff is now actively working to complete the rulemaking for delivery to the Commission for its consideration in June 2018.

The staff has completed other activities that risk-inform the MC&A program, including revising U.S. Nuclear Regulatory Commission (NRC) Inspection Manual Chapter (IMC) 2683, "Material Control and Accounting Inspection of Fuel Cycle Facilities," and associated inspection procedures Series 85000 for all category fuel cycle facilities. The revision of IMC 2683 is documented in the Agencywide Documents Access and Management System (ADAMS).

This manual chapter establishes the inspection program requirements for MC&A programs for fuel cycle licensees, incorporating graded performance standards that are based on the dominant relative safeguards risks associated with the form, quantity, and enrichment of SNM. Applicable inspection procedures are routinely used by headquarters and regional inspectors for conducting MC&A inspections of licensed facilities. In addition, staff are revising the following relevant guidance documents to be consistent with the revised rule and to incorporate the graded approach to MC&A programs:

- NUREG-1280, Revision 2, "Acceptable Standard Format and Content for the Material Control and Accounting (MC&A) Plan Required for Strategic Special Nuclear Material,"

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Status of Recommendations

Recommendation 1 (cont):

- NUREG-2159, "Acceptable Standard Format and Content for the Material Control and Accounting (MC&A) Plan Required for Special Nuclear Material of Moderate Strategic Significance,"
- NUREG-1065, Revision 3, "Acceptable Standard Format and Content for the Material Control and Accounting (MC&A) Plan Required for Special Nuclear Material of Low Strategic Significance,"
- NUREG-2158, (formerly NUREG/CR-5734), "Acceptable Standard Format and Content for the Material Control and Accounting (MC&A) Plan Required for Low Enriched Uranium Enrichment Facilities,"
- NUREG/BR-0096, Revision 2, "Instructions and Guidance for Completing Physical Inventory Summary Reports," and
- DG-5057, "Special Nuclear Material Control and Accounting System for Non-Fuel Cycle Facilities."

The revised guidance documents will be completed at the time the rulemaking package is provided to the Commission.

Furthermore, the staff completed a lessons-learned report by conducting a review of the NRC licensing and inspection programs related to material control and accounting and physical security for fuel cycle facilities. The lessons-learned report is documented in ADAMS. Additionally, the responsibility for reactor MC&A oversight and licensing was successfully transferred to the Office of Nuclear Material Safety and Safeguards (NMSS) from the Office of Nuclear Security and Incident Response (NSIR) in November 2013. The staff continues to coordinate activities among NMSS, NSIR, and the regions for oversight of MC&A programs at all types of facilities.

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Status of Recommendations

Recommendation 1 (cont):

Target Completion Date:

As noted above, the final rulemaking package is scheduled to be delivered to the Commission in June 2018. Thereafter, with the Commission's approval, the final rule will be published in the *Federal Register*. The staff recommends that Recommendation 1 be closed following Commission action on the rulemaking.

OIG Analysis:

This status update recounts the agency's efforts towards meeting the intent of this recommendation. OIG will continue to monitor the agency's extremely slow progress. Recommendation 1 will be closed once the agency provides, and OIG verifies, the information in the final rulemaking.

Status:

Resolved.

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Status of Recommendations

Recommendation 3: Document the basis of the approach used to risk inform NRC's oversight of MC&A activities for all types of materials licensees.

Agency Response Dated
December 29, 2017:

December 2017 Status:

Because Recommendation 3 also pertains to risk-informing the inspection program, see the December 2017 status for Recommendation 1.

Target Completion Date:

As noted above, the final rulemaking package is scheduled to be delivered to the Commission in June 2018. Thereafter, with the Commission's approval, the final rule will be published in the *Federal Register*. The staff recommends that Recommendation 3 be closed following Commission action on the rulemaking.

OIG Analysis:

This status update recounts the agency's efforts towards meeting the intent of this recommendation. OIG will continue to monitor the agency's extremely slow progress. Recommendation 3 will be closed once the agency provides, and OIG verifies, the information in the final rulemaking.

Status:

Resolved.