

UNITED STATES
NUCLEAR REGULATORY COMMISSION
OFFICE OF NUCLEAR REACTOR REGULATION
WASHINGTON, D.C. 20555

July 20, 1989

NRC INFORMATION NOTICE NO. 89-56: QUESTIONABLE CERTIFICATION OF MATERIAL
SUPPLIED TO THE DEFENSE DEPARTMENT BY
NUCLEAR SUPPLIERS

Addressees:

All holders of operating licenses or construction permits for nuclear power reactors.

Purpose:

This information notice is being provided to alert addressees to a possible problem with the certification of material furnished by Meredith Corporation, Pressure Vessel Nuclear (PVN) and Alloy & Carbon Steel Company, Incorporated (ALLOY) of Hillside, New Jersey. It is expected that recipients will review the information for applicability to their facilities and consider actions, as appropriate, to avoid similar problems. However, suggestions contained in this information notice do not constitute NRC requirements; therefore, no specific action or written response is required.

Description of Circumstances:

On May 4, 1989, the U.S. Department of Justice, District of New Jersey, issued information that corporate officers for PVN and ALLOY were indicted for their alleged roles in selling commercial-grade steel as military-grade steel which was used to build and repair U.S. Navy submarines and surface ships. The 27-count indictment rendered on May 4, 1989, by a Newark Federal Grand Jury, charges the defendants, some of whom are presently employees of PVN, with substituting commercial-grade steel for military-grade steel and fraudulently documenting the substitutions as meeting military specifications. From April 1984 through August 1985 the defendants allegedly caused nonconforming steel to be shipped to Department of Defense contractors. The defendants allegedly falsely marked and stenciled steel, created false documentation bearing the letterhead of various companies, falsely altered manufacturer issued certified material test reports (CMTRs), caused fraudulent chemical and physical test certificates to be prepared for tests that had not been performed, and prepared false certificates of conformance (C of Cs) for steel that did not conform to purchase requirements. Attachment I contains a copy of OVERT ACTS from the indictment that identifies faulty documents, heat numbers, and manufacturers' names.

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Discussion:

During NRC inspections of PVN conducted the weeks of November 2, 1988 and February 1, 1989, three examples of material supplied to ASME Section III requirements without adequate basis were discovered. In all three cases PVN purchased stock material and sold it as meeting the requirements of Section III without performing the upgrade testing required by NCA-3867.4(e). In addition, it was also noted that PVN had altered CMTRs received from American Tank and Fabricating Company (ATF). On material ATF had purchased from an ASME Quality Systems Certificate (QSC) holder as stock material and subsequently sold to PVN, PVN had removed ATF's name from the "Sold To" and "Shipped To" blocks of the CMTR and inserted PVN's name and address. Based on the indication that the material was purchased directly from an ASME QSC holder, the customer would not be looking for upgrade testing results nor suspect the material was not in conformance with code requirements.

On June 13 and 14, 1989, Virginia Power conducted an audit of PVN. The audit examined a sample of purchase orders which consisted of 16 safety-related purchase orders, encompassing 30 individual line items of various types of safety-related materials. The 16 safety-related purchase orders were issued between September 1, 1988 and May 4, 1989. From the sample of 30 line items, Virginia Power auditors determined that in 3 cases PVN purchased material from unapproved suppliers and in 17 cases PVN supplied commercial grade material. In all 20 cases, PVN certified that the material met all the requirements of Virginia Power's purchase orders, including Appendix B to 10 CFR 50. However, there is no indication that PVN took any action to determine that the materials supplied were suitable for safety-related applications prior to certifying the material met the requirements of Appendix B.

Addressees may wish to review nuclear procurements from these vendors to ensure that appropriate bases exist for the use of PVN or ALLOY supplied material. Further, addressees may wish to contact the steel mills identified as the manufacturer of the procured materials to confirm traceability of the material and to inform one of the NRC technical contacts listed below of any materials identified as not originating from the manufacturer indicated in the documentation or having material properties different from those indicated in the documentation. The NRC is interested in obtaining information on material supplied by PVN or ALLOY in which discrepancies have been found that are similar to those described above or in the indictment described in Attachment 1. The NRC is particularly interested in discrepancies discovered as a result of independent verification testing of chemical and mechanical properties and information on recent procurements.

Addressee audits of material manufacturers and suppliers which include a review of the basis for certifications provided by vendors and the supporting tests and records of traceability can prevent problems such as those discussed above. Addressees may wish to review the adequacy of previous vendor audits and their general vendor approval process in light of Information Notice No. 88-35, "Inadequate Licensee Performed Vendor Audits" and the above information.

No specific action or written response is required by this information notice. If you have any questions about this matter, please contact one of the technical contacts listed below or the Regional Administrator of the appropriate regional office.



Charles E. Rossi, Director
Division of Operational Events Assessment
Office of Nuclear Reactor Regulation

Technical Contacts: Ramon Cilimberg, NRR
(301) 492-3220

Ed Baker, NRR
(301) 492-0959

Attachments:

1. Overt Acts
2. List of Recently Issued NRC Information Notices

OVERT ACTS

In furtherance of the conspiracy and to effect the illegal objects thereof, the following overt acts were committed:

TODD SHIPYARD PURCHASE ORDER NUMBER SF-16373

1. On or about June 18, 1985, defendant Alloy received an order from Todd Shipyard ("Todd"), specifically Todd Purchase Order SF-16373, which called for, among other items, two pieces of steel plate with dimensions 3/8" x 96" x 240" and 3/8" x 96" x 120", Specification MIL-S 22698 Grade HT.

2. On or about June 20, 1985, defendant Thomas Syms issued Alloy Purchase Order Number 5318 to Levinson Steel Company for, among other items, two pieces of American Society of Testing Materials ("ASTM") A588 plate with dimensions 3/8" x 96" x 240" and 3/8" x 96" x 240".

3. On or about June 25, 1985, defendant Alloy received the steel from Levinson for Purchase Order Number 5318.

4. In or about June 1985, defendant Alloy received Certified Mill Test Reports indicating that the 3/8" plate mentioned in the preceding paragraphs was manufactured to ASTM A588 specifications, heat number F00402, by United States Steel Corporation.

5. On or about June 27, 1985, defendant Louis Mikosh signed a Certificate of Test, which he caused to be supplied to Todd, that indicated the three-eighths inch steel plate was produced by Phoenix Steel Corporation to MIL-S-22698,

Grade HT specification, heat number 95372, knowing full well that this was a false and fraudulent statement.

CRAFT MACHINE WORKS ORDER NUMBER 2P18708-7

6. In or about December 1984, defendant PVN received an order from Craft Machine Works ("Craft"), order number 2P18708-7, which called for, among other items, the following pieces of steel:

<u>SPECIFICATION</u>	<u>DIMENSIONS</u>	<u>HEAT NUMBER</u>
MIL-S-16113	1"x96"x120"	401N7311
MIL-S-16113	1 1/2"x96"x120"	411S3321

7. On or about December 13, 1984, defendant Hamilton Vasquez signed PVN's sales order number 01527 indicating that PVN was shipping steel of military specification in fulfillment of the Craft order.

8. In or about December 1984, defendant PVN issued Certified Mill Test Reports to Craft for the military specification steel described in Overt Act 6 when in fact the defendant PVN had shipped commercial grade steel to Craft.

9. In or about March 1985, Craft notified defendant PVN that independent testing performed on the steel shipped to Craft indicated that the PVN supplied steel was deficient as military specification steel.

10. On or about March 18, 1985, defendant William Lanza answered Craft's letter and offered to have the steel retested.

11. In or about June 1985, defendant Hamilton Vasquez traveled to Newport News, Virginia to arrange for new testing of the disputed steel but no test was performed.

TIM SHULER & ASSOCIATES PURCHASE ORDER NUMBER 401

12. On or about October 15, 1984, Tim Shuler & Associates ("Tim Schuler") ordered from defendant Alloy on purchase order number 401, among other items, 130 pieces of 3" x 3" x 1/4" x 20' steel angles, with military specification MIL-S-22698B, Grade AH36T.

13. On or about November 12, 1984, defendant Alloy shipped Tim Shuler 130 pieces of structural steel, each piece measuring 3" x 3" x 1/4" x 20', bearing heat number 81672 and purporting to be MIL-S-22698B, Grade AH36T Class U.

14. On or about November 12, 1984, defendant Louis Mikosh signed an Alloy Certificate of Test certifying that the 130 pieces of steel bearing heat number 81672 was military specification steel and that the certificate of test was a true copy of a test report on file at Alloy when, in fact, he knew that certification was false and fraudulent and a forgery.

15. On or about November 12, 1984, defendant Alloy provided Tim Shuler Associates with a forged and fraudulent Atlantic Steel Company Certified Mill Test Report for heat number 81672 falsely certifying that the steel Alloy was providing to Tim Shuler was military specification steel when, in truth and in fact, it was commercial grade steel.

DIVERSIFIED METALS INC. ORDER NUMBER 1548¹

16. On or about May 3, 1984, Diversified Metals placed an order with defendant PVN on purchase order number 1548 for 25 pieces of 3/8" x 4" x 20' steel bars, with military specification MIL-S-20166B, Grade HT.

17. On or about May 2, 1984, PVN issued a purchase order number 8573 to Azco Steel Company, for 25 pieces of 3/8" x 4" x 21' flat bar, commercial specification ASTM A588.

18. On or about May 4, 1984, defendant Dean Lanza signed a PVN Certificate of Test certifying that 25 pieces of steel bearing heat number A1053 was military specification steel and that the certificate of test was a true copy of a test report on file at PVN when, in fact, he knew that certification was false and fraudulent.

19. On or about May 4, 1984, defendant PVN provided Diversified Metals with a forged and fraudulent Atlantic Steel Company Certified Mill Test Report for heat number A1053 falsely certifying that the steel PVN was providing to Diversified Metals was military specification steel when, in truth and in fact, it was commercial grade steel.

BLANK DOCUMENTS

20. During the period of this Indictment, defendant Louis Mikosh, improperly and wrongly kept blank Atlantic Steel Company Certified Mill Test Reports in his office which he periodically caused to be forged so to falsely certify commercial grade steel was military specification steel.

21. During the period of this Indictment, defendant Louis Mikosh improperly and wrongly kept blank American Bureau of Shipping documents in his office which he periodically caused to be forged so to certify that steel he was shipping complied with ABS standards.

All in violation of Title 18, United States Code, Section 371.

COUNT 4

1. Paragraphs 1, and 3 through 13 of Count 1 of this Indictment are realleged and incorporated as though set forth in full herein.

2. On or about May 30, 1985, in Hillside in the District of New Jersey and elsewhere, the defendants

LOUIS MIKOSH and
ALLOY & CARBON STEEL, INC.

in a matter within the jurisdiction of a department and agency of the United States, that is, the United States Department of Defense and the United States Navy, did knowingly and willfully make and use and cause to be made and used a false, fictitious and fraudulent statement and representation and did make and use and cause to be made and used a false writing and document knowing the document and writing contained a false, fictitious and fraudulent statement and entry in that the defendants provided a forged Bethlehem Steel Certified Mill Test Report to Colonnas Shipyard knowing full well that the heat number and specification listed thereon were not the true heat number and specification for the steel shipped to Colonnas Shipyard.

In violation of Title 18, United States Code,
Sections 1001 and 2.

LIST OF RECENTLY ISSUED
 NRC INFORMATION NOTICES

Information Notice No.	Subject	Date of Issuance	Issued to
89-45, Supp. 1	Metalclad, Low-Voltage Power Circuit Breakers Refurbished With Substandard Parts	7/6/89	All holders of OLs or CPs for nuclear power reactors.
89-55	Degradation of Containment Isolation Capability by a High-Energy Line Break	6/30/89	All holders of OLs or CPs for nuclear power reactors.
89-54	Potential Overpressurization of the Component Cooling Water System	6/23/89	All holders of OLs or CPs for nuclear power reactors.
89-53	Rupture of Extraction Steam Line on High Pressure Turbine	6/13/89	All holders of OLs or CPs for nuclear power reactors.
88-46, Supp. 3	Licensee Report of Defective Refurbished Circuit Breakers	6/8/89	All holders of OLs or CPs for nuclear power reactors.
89-52	Potential Fire Damper Operational Problems	6/8/89	All holders of OLs or CPs for nuclear power reactors.
89-51	Potential Loss of Required Shutdown Margin During Refueling Operations	5/31/89	All holders of OLs or CPs for nuclear power reactors.
88-88, Supp. 1	Degradation of Westinghouse ARD Relays	5/31/89	All holders of OLs or CPs for nuclear power reactors.
89-50	Inadequate Emergency Diesel Generator Fuel Supply	5/30/89	All holders of OLs or CPs for nuclear power reactors.
89-49	Failure to Close Service Water Cross-Connect Isolation Valves	5/22/89	All holders of OLs or CPs for nuclear power reactors.

OL = Operating License
 CP = Construction Permit