June 29, 2007

MEMORANDUM TO: Luis A. Reyes
Executive Director for Operations

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

SUBJECT: STATUS OF RECOMMENDATION: MEMORANDUM REPORT: AUDIT OF NRC'S REGULATION OF NUCLEAR FUEL CYCLE FACILITIES (OIG-07-A-06)

REFERENCE: DIRECTOR, OFFICE OF NUCLEAR MATERIAL SAFETY AND SAFEGAURDS,
MEMORANDUM DATED MAY 31, 2007

Attached is the Office of the Inspector General (OIG) analysis and status of the recommendation as discussed in the agency's response dated May 31, 2007. Based on this response, recommendation 1 remains resolved. Please provide an updated status of the resolved recommendation by December 21, 2007.

If you have any questions or concerns, please call me at 415-5915 or Sherri Miotla at 415-5914.

Attachment: As stated

cc: V. Ordaz, OEDO
M. Malloy, OEDO
P. Tressler, OEDO

Audit Report

Audit of NRC's Regulation of Nuclear Fuel Cycle Facilities
OIG-07-A-06

Status of Recommendation

Recommendation 1: Fully develop and implement a framework for the Fuel Cycle Facility Oversight Program (FCFOP), that is consistent with a structured process, such as the Reactor Oversight Process (ROP).

Agency Response Dated May 31, 2007:

In audit report OIG-07-A-06, the Office of Inspector General (OIG) reviewed the Office of Nuclear Material Safety and Safeguards, Division of Fuel Cycle Safety and Safeguards (FCSS) fuel cycle facility oversight activities. FCSS fuel cycle facility oversight consists primarily of licensing, inspection and enforcement activities conducted under 10 CFR 70. Fuel cycle facility oversight necessarily uses a more qualitative, versus a quantitative, approach to assessment of licensee performance. This structure is consistent with Commission direction in the staff requirements memorandum for COMSECY-06-0028 (disapproval of facility-specific performance indicators) and differs from that of the ROP. Subsequent to implementation of changes to 10 CFR Part 70, efforts have been initiated to consolidate, upgrade and structure fuel cycle facility oversight and to align fuel cycle oversight policy and procedures with a new regulatory approach, the integrated safety analysis (ISA) process.

The following paragraphs discuss the status of various initiatives undertaken by FCSS staff to fully develop and implement a framework for the FCFOP that is consistent with a structured process.

In 2003, the fuel cycle inspection program was consolidated at Region II with criticality safety remaining at NRC Headquarters. Consolidation of the fuel cycle inspection program includes efforts to revise Enforcement Policy through Enforcement Guidance Memoranda (EGM). The initial proposed EGM is expected to be completed in 2007 and includes consideration of licensees' assessments of risk, through the ISA process, in determining the

significance of violations. The entire enforcement policy revision effort is expected to be completed in 2008.

FCSS staff has developed a structure for evaluating ISA annual updates, including a new performance metric to complete a sampling review of ISA and plant changes within 120 days. This review will confirm, based on sampling, that plant and ISA changes do not require formal NRC approval. Region II will be provided information regarding specific changes from the completed ISA update reviews to verify and validate during inspections of plant modifications under Inspection Procedure 88070. A direct final rule was issued in 2007 to clarify the facility change process under 10 CFR 70.72 that had previously been addressed by a Regulatory Issue Summary, RIS-06-14.

Structured event processing guidance was completed in 2007. FCSS event coordinators and point of contact responsibilities were formally designated to ensure that fuel cycle events are properly assessed, tracked and trended to closure. As a follow-on assignment to this effort, and in response to OIG Audit on Nuclear Material Event Database (NMED)/Fuel Cycle Nuclear Material Event Database (FCNMED) (OIG-07-A-11), the staff will review and make changes as necessary to the reporting threshold into NMED and improve the infrastructure of procedural controls for FCNMED to allow for adequate trending of data from our fuel cycle facilities. The revised reporting threshold would allow for periodic discussions on possible generic events and input into trending performance of fuel cycle facilities.

A final initiative that may lead to further structuring of fuel cycle oversight is the safety culture pilot plan, initiated by NMSS and the Office of Enforcement, that will select two fuel cycle licensees to review how they address safety culture at their facilities. The pilot oversight plan will be accomplished in two phases, phase 1 in 2007 and phase 2 in 2008. Phase 1 will be program development and gathering of information on safety culture components and aspects currently addressed to identify gaps. Phase 2 will be implementation of changes from phase 1 at

selected facilities and provision of recommendations for permanent changes to regulatory inspection procedures and licensee performance review procedures. The results will be assessed for the possibility of expanding oversight of safety culture to other licensees.

OIG Analysis: The proposed corrective action addresses the intent of OIG's recommendation. Recommendation 1 will be closed when NRC provides evidence that it has fully developed and implemented a framework for the Fuel Cycle Facility Oversight Program.

Status: Resolved.