

January 7, 2008

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 SAFEGAUARDS, MEMORANDUM DATED  
DECEMBER 10, 2007

Attached is the Office of the Inspector General (OIG) analysis and status of the recommendation as discussed in the agency's response dated December 10, 2007. Based on this response, recommendation 1 remains resolved. Please provide an updated status of the resolved recommendation by June 27, 2008.

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

December 10, 2007: In audit report OIG-07-A-06, the Office of the Inspector General (OIG) reviewed the Office of Nuclear Material Safety and Safeguards (NMSS), Division of Fuel Cycle Safety and Safeguards (FCSS) fuel cycle facility oversight activities. By memorandum (ML071490183), dated May 31, 2007, NMSS provided a response to an OIG request for update on the status of Recommendation 1. The initial response discussed several initiatives related to improving fuel cycle oversight, including: (1) structured evaluation of integrated safety analysis (ISA) annual updates; (2) consolidation of the fuel cycle inspection program at Region II; (3) revision of U.S. Nuclear Regulatory Commission (NRC) Enforcement Policy; (4) development of structured event processing guidance; and (5) completion of a safety culture pilot plan. The above referenced initiatives are progressing as planned and discussed in the May 31, 2007, response memorandum. Additionally, improvements in transparency, openness, and predictability of fuel cycle regulation are being completed in accordance with established milestones, as discussed below.

FCSS has completed the first annual review of ISA updates and has identified risk insights, during the review, which have been used to inform future fuel cycle inspection activities. Additionally, FCSS is conducting a lessons-learned review, to identify areas for streamlining the ISA update review process, including improving change screening criteria and developing a better internal review schedule.

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The fuel cycle inspection program consolidation activities discussed in the May 31, 2007, response memorandum has been completed. Revision of the fuel cycle oversight inspection manual chapter (IMC) 2600 has been completed to make the manual chapter more risk-informed. Additionally, IMC 2600 has been made available to the public. This effort has improved the transparency and predictability of the fuel cycle oversight program.

In the May 31, 2007, response memorandum, FCSS staff discussed use of a proposed enforcement guidance memorandum (EGM) to implement changes to the NRC enforcement policy. In June 2007, FCSS sponsored working groups, supported by the industry, to discuss selected 10 CFR Part 70 issues, including enforcement. These working groups are discussed further below. Staff postponed action on the proposed EGM while the fuel cycle working group on enforcement is meeting, so as to incorporate any comments from the work group into the final enforcement proposal. Work group members are developing comments on the proposed EGM, which was used as the starting point for the enforcement work group discussions. The work group also plans to develop proposals for the 2008 NRC Enforcement Policy revision.

FCSS staff has completed development of structured event processing guidance which was issued as a division internal procedure and has been implemented by the FCSS event coordinator.

The FCSS safety culture pilot program is progressing, with the evaluation of how components of safety culture are addressed by existing licensee programs. A safety culture pilot program project manager has been assigned and a plan for the pilot program was issued in a memorandum (ML071640230) dated August 3, 2007. The first phase of the pilot program encompasses: (1) reviewing and gathering information on NMSS' inspection procedures and programs relative to the 13 components of Safety Culture

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identified in RIS 2006-13; (2) identifying gaps; and (3) proposing actions to address these gaps. The first phase also includes the review of programs at two licensee facilities. To date, procedure reviews have been initiated and two target facilities have been identified. On-site data collection is expected to begin in early 2008. The second phase involves the application of the first phase results.

In addition to safety culture pilot program activities, an NRC oversight panel has been established to review safety culture improvements at Nuclear Fuel Services (NFS), relative to an Order that was recently issued modifying the NFS license. The oversight panel is reviewing licensee implementation of Order requirements regarding safety culture improvements and configuration management. Panel actions are initiated by Region II, which has most recently approved relaxing the Order to allow a new schedule for completing the initial improvement phase, the safety culture assessment. Lessons learned from the NFS safety culture oversight panel will be used to inform the safety culture pilot program.

In addition to items discussed above, additional actions, related to upgrading and structuring fuel cycle facility oversight, are in progress. FCSS staff conducted a second annual fuel cycle information exchange (FCIX) in June 2007. This public meeting with industry representatives included meetings and panel discussions, of current and projected fuel cycle industry issues, and proposed new facilities. The FCIX meetings are proving to be a key element of a more structured and consistent fuel cycle oversight program. In conjunction with the FCIX, FCSS staff initiated fuel cycle workshops subsequent to the 2007 FCIX to develop approaches to specific issues, including: (1) enforcement policy; (2) 10 CFR Part 70 reporting; and (3) 10 CFR 70.72 implementation. The first fuel cycle workshop meetings were held immediately after the 2007 FCIX and resulted in establishing work groups which are currently working to develop proposals in their subject areas to improve regulatory consistency and predictability.

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Finally, FCSS and Region II staff held a local public meeting and poster session at Erwin, TN, to discuss the scheduled NFS licensee performance review (LPR), and the recent high-enriched uranium solution spill at the facility. The public meeting and poster session also included information on the fuel cycle oversight process. Revision of the LPR process to improve regulatory transparency and predictability is under review. Based upon the efforts noted above, and the scheduled completion of the remaining ongoing efforts, the staff considers the NMSS response to Recommendation 1 complete.

**OIG Analysis:** The proposed corrective actions continue to address 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.