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PACIFIC GAS AND ELECTRIC COMPANY

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MALCOLM H. FURBUSH  
SENIOR VICE PRESIDENT  
AND GENERAL COUNSEL

December 22, 1981

Mr. Nunzio J. Palladino, Jr.  
Chairman  
Nuclear Regulatory Commission  
Washington, D. C. 20555

Dear Chairman Palladino:

Governor Brown's letter of December 17, 1981, calling for a halt to the ongoing audit of Diablo Canyon, rejection of PGandE's proposal for an extensive audit by three eminent expert bodies, and the establishment of a set of "ground rules" comes as no surprise. It is a part of the Governor's longstanding game plan to prevent, if possible, and delay as long as possible, in any event, the operation of Diablo Canyon.

The reasons given for his stance are "possible improprieties between PGandE and its consultants" and the adverse effect this might have on the "public's perception" of the objectivity and credibility of the auditors' work.

These "reasons" are without merit and we hope that the Commission will have the courage to say so in the face of the political pressure imposed by the Governor and his allies.

This so-called "public perception" is one which the Governor is doing his utmost to create. Your Commission can correct this "perception," if it exists, by a forthright ruling that recognizes how audits are conducted and that the Company and Dr. Robert L. Cloud have followed accepted practices. The charge of "impropriety" stems from the fact that at the technical working level of PGandE preliminary drafts of a proposed report by Dr. Cloud were reviewed for factual accuracy.

The practice followed is not only the widely accepted procedure for independent audits, but also, as you may know, conforms to the "Standards For Audits of Governmental Organizations, Programs, Activities and Functions" of the Comptroller General of the United States, a copy of which, in appropriate reference, is attached. Similarly, it is consistent with the internal auditing procedure of the NRC itself. The following statement is contained in a report to Congress by the Comptroller General, dated July 9, 1981,

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relating to the NRC Office of Inspector and Auditor (This office was created in 1975 to independently review and appraise all NRC operations, and recommend corrective actions):

"Before an OIA report is issued, it is normally forwarded to the affected NRC program office for review and comment. This, in our view, is a legitimate process for ensuring that draft reports are factually correct and based on sound and logical analysis. More importantly, it offers responsible program officials the opportunity to either agree or disagree with the findings, conclusions, and recommendations of the draft report and to identify corrective actions, if any, they plan to take."

Not only was the procedure followed proper, but also the following offer was made to the Commission on November 3, 1981, on behalf of the Company (page 217 of the record):

"The report itself hasn't been prepared. If you want a copy of it before we get it, fine, or simultaneously. It is an independent consultant, and, you know, I don't know how we can show you that more than to give you the reports when they are prepared. You certainly are welcome to have an auditor, if you will, from the NRC accompany Dr. Cloud and his people in their work. Whatever you want to do. If you want to talk to them directly out of our presence, fine. He is an independent consultant."

It is time that respected consultants and men of science be spared the character assassination that has been allowed to creep into this proceeding and that the Commission take the lead in affording them protection.

We urge rejection of the Governor's suggestion and expeditious adoption of the auditing proposal we have submitted.

Very truly yours,

*Malcolm H. Furbush*

MHF:lmg

cc:Commissioner John F. Ahearne  
Commissioner Peter A. Bradford  
Commissioner Victor Gilinsky  
Commissioner Thomas M. Roberts  
Service List

Attachment

# Standards For Audit Of Governmental Organizations, Programs, Activities, And Functions

BY THE  
COMPTROLLER  
GENERAL  
OF THE  
UNITED STATES



1981 Revision

## *Views of Responsible Officials*

One of the most effective ways to ensure that a report is fair, complete, and objective is to obtain advance review and comments by officials of the audited entity. This produces a report which shows not only what was found and what the auditors think about it but also what the responsible persons think about it and what they plan to do about it.

Advance comments should be objectively evaluated, and the report presentations and conclusions should recognize them. The comments and an analysis of them should be fairly presented in the text of the report. A promise of corrective action should be noted but should not be accepted as justification for dropping a significant point or a related recommendation.

When the comments oppose the auditors' findings or conclusions and are not, in their opinion, valid, the auditors should state their reasons for rejecting them. Conversely, they should modify their position if they find the comments valid.

## *Recognition of Noteworthy Accomplishments*

Significant management accomplishments identified during the audit should be included in the audit report, along with deficiencies. Such information is necessary to fairly present the situation the auditors find and to provide appropriate balance to the report. In addition, inclusion of such accomplishments may lead to improved performance by other government organizations that read the report.

## *Issues Needing Further Study*

If the scope of the audit or other factors limits the auditors' ability to inquire into certain matters they believe should be studied, the auditors should include in the report such matters and the reasons why they believe they merit further study.

## *Privileged and Confidential Information*

Certain operating information may be prohibited from general disclosure by Federal, State, or local laws or regulations. Such information may be provided on a need-to-know basis only to persons authorized by law or regulation to receive it.

If the auditors are prohibited by such requirements from including pertinent data in the report, they should state the nature of the information omitted (for