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**POLICY ISSUE**  
**(Information)**

SECY-90-304

For: The Commissioners

From: James M. Taylor  
Executive Director for Operations

Subject: NUMARC INITIATIVES ON PROCUREMENT

Purpose: To report to the Commission on the status of the Nuclear Utility Management and Resource Council's (NUMARC's) initiatives on general procurement practices, product acceptance, and performance-based supplier audits.

Background: On March 7, 1990, the staff forwarded to the Commission a paper, "Inspection and Enforcement Initiatives for Commercial-Grade Procurement and Dedication Programs" (SECY-90-76). This paper informed the Commission of staff actions to defer programmatic inspections of commercial-grade procurement and dedication programs while monitoring industry developments, improvements, and initiatives in this program area. By memorandum dated April 11, 1990, the Office of the Secretary requested the staff to provide additional information on the staff actions and initiatives of NUMARC and the industry. In a separate paper (SECY-90-261), the staff responded to the Commission request for information on the staff's inspection and enforcement actions. This paper is a response to the Commission's request for information on the status of the initiatives by NUMARC and the industry in this program area.

Discussion: NUMARC Initiatives

In September 1988, NUMARC formed the Nuclear Plant Equipment Procurement (NPEP) Working Group to address the need for improvements in procurement practices throughout the nuclear industry. Since that time, the NRC staff attended a number of meetings with the NPEP Working Group to discuss the group's activities and to share NRC concerns and perspectives on the problems identified in the areas of procurement, inspection, testing, audit, and dedication.

Contacts: G. Cwalina, NRR  
49-23221

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The NPEP Working Group developed two industry initiatives that support improvements to licensees' procurement programs and practices. The first initiative addresses licensees' programs for the dedication of commercial-grade items for use in safety-related applications. This initiative directed utilities to meet the guidance provided by the Electric Power Research Institute (EPRI) in the guideline document, "Guidelines for the Utilization of Commercial-Grade Items for Nuclear Safety-Related Applications (NCIG-07)." In March 1989, this initiative received the approval of the NUMARC Board of Directors for implementation by the utilities by January 1, 1990. This initiative encourages the licensees to make improvements in the process to dedicate commercial-grade items for safety-related application through a combination of special tests and inspections, surveys of suppliers, source verifications, and product acceptance reviews. In March 1989, the NRC also conditionally endorsed this EPRI document in Generic Letter 89-02.

The second NPEP Working Group initiative, referred to as the comprehensive procurement initiative, addresses five areas: performance-based audits; verification testing or inspections (in addition to the standard receipt inspections) to ensure the quality and performance capability of purchased items; alternatives for the replacement of obsolete items; the sharing of vendor audit information through joint audit forums; and general improvements in procurement practices with appropriate engineering involvement and support. A NUMARC document containing a more detailed discussion of the initiatives on the dedication of commercial-grade items and the comprehensive procurement initiative is enclosed. The NUMARC initiative provides improvements in procurement programs for future procurement and dedication programs to meet the quality requirements specified in Appendix B to 10 CFR Part 50. Because the NUMARC initiative is silent on previous procurement activities, NRC inspection findings on corrective actions and examinations of past practices will be provided in a generic letter which is under development by the staff and is discussed below.

On June 28, 1990, the NUMARC Board of Directors approved the comprehensive procurement initiative. The NUMARC action requires the licensees to review, assess and develop improvements in their procurement programs to fully implement the comprehensive procurement initiative by July 1, 1992.

NRC Actions

With the endorsement by NUMARC of the two procurement initiatives, NRC staff will conduct assessments at selected licensees' facilities to review their implementation of improved dedication programs and to assess the improvements made in the area covered by the licensees' comprehensive procurement initiative program. Each assessment will be documented in a publicly available report. The staff plans to report the results of these assessments to the Commission in January 1992. These assessments will be carried out during the pause in programmatic inspection and enforcement activities (SECY-90-261).

In SECY-90-57 and -90-76, the Commission was informed that the staff would monitor improvements made by the industry in their procurement and dedication programs, that the staff would meet with licensees to discuss general concerns in this program area, and that the staff would consider whether additional regulatory guidance is needed to clarify the position and expectations of the NRC in this program area. By means of site assessments and meetings with individual licensees, the NRC staff will assess the licensee program implementation of the initiatives and the overall implementation of specific procurement/dedication program improvements.

Industry meetings and workshops provide a very effective forum for NRC and licensees to discuss issues, problems, and positions. Since May 1990, the staff has participated in the following sessions, presentations, and meetings with licensees and the industry:

May 1990 - NRC Regulatory Information Conference  
May 1990 - Operations Quality Assurance Spring 1990 Conference  
June 1990 - American Nuclear Society Annual Meeting  
June 1990 - Region I Licensee Conference  
June 1990 - Region III Licensee Conference

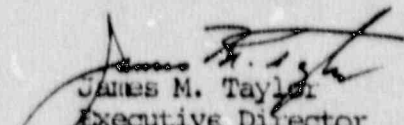
In addition, in September 1990, the staff will participate in procurement and materials management panels with the American Society for Quality Control, and also in a combined conference of the American Society of Mechanical Engineers and the American Nuclear Society. The staff is also considering other workshops and panels with NUMARC and the industry.



The staff will develop a generic letter which endorses the NUMARC initiatives to improve licensee's procurement and dedication programs in order to meet the quality requirements specified in Appendix B of 10 CFR Part 50. The generic letter will also provide information on significant problems in those areas identified during previous NRC inspections. The staff provided a copy of an early version of the generic letter to NUMARC for comment, placed a copy in the Public Document Room, and has discussed this document extensively during the meetings listed herein. The staff is finalizing the generic letter based upon comments received and internal reviews.

The staff believes that the understanding and implementation by licensees in this program area will improve because of the licensees' commitment to, endorsement of, and implementation of NUMARC initiatives. The NRC will monitor licensees' progress and improvements in procurement and dedication programs during the pause in programmatic inspection and enforcement initiatives. The staff will resume inspection of licensee programs to verify compliance with Appendix B to 10 CFR Part 50 at an appropriate time following licensees' implementation of the NUMARC initiatives.

Coordination: The Office of the General Counsel has reviewed this paper and has no legal objection.

  
James M. Taylor  
Executive Director  
for Operations

Enclosure: Nuclear Procurement Program Improvements  
(NUMARC paper dated June 28, 1990)

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## NUCLEAR PROCUREMENT PROGRAM IMPROVEMENTS

### INTRODUCTION

The NUMARC Nuclear Plant Equipment Procurement (NPEP) Working Group was formed in September 1988, at the direction of the NUMARC Board of Directors, to address the need for general improvements to industry procurement practices. The Working Group provided a forum for unified industry discussion and interaction with the NRC on concerns relating to industry procurement activities. The specific goals of the Working Group were:

- 1) Review utility procurement practices and consider what changes may be necessary to minimize the impact of fraudulent activities by suppliers to the industry.
- 2) Develop and recommend long term resolution to industry and NRC concerns relating to procurement activities.
- 3) Develop industry guidance as necessary to achieve implementation of the resolution, and propose appropriate industry initiatives for consideration by the NUMARC Board of Directors.

The Working Group reviewed existing procurement activities and identified elements for potential improvement. The Working Group has now finalized their determination of which improvements should be effected through the NUMARC industry initiative process. This paper describes the total set of improvements and provides information necessary for utility implementation of the industry initiatives.

#### **WORKING GROUP CONSIDERATIONS**

At the outset, the Working Group developed a discussion paper, "Nuclear Procurement Issues," which described elements of the procurement process under consideration for potential improvements. These included vendor audits, receipt inspection, dedication of commercial grade items, obsolescence, fraud detection, information exchange, and general procurement. The "Nuclear Procurement Issues" paper was provided to both the industry and NRC. The key considerations of the Working Group were that:

- 1) 10 CFR 50 Appendix B was intended to ensure quality products through good faith cooperation between suppliers and utilities, and was not intended to address potentially fraudulent practices.
  
- 2) In order to minimize fraud, more emphasis should be placed on technical verification of product quality, rather than relying solely on documentation reviews. Increased engineering involvement in the front end of the procurement process will generally be needed to accomplish this.



3) Improvements to the overall procurement process, along with increased awareness of the potential for fraud, provide the most effective mechanisms to counter fraud. Changes to regulations and standards to explicitly address fraud are unlikely to be effective, since fraud can perpetrate under any system of controls.

4) The existing system of regulations and standards provide an effective foundation for procurement activities and need not be replaced or significantly altered. Rather, industry guideline documents should be developed to provide the necessary improvements to existing practices and to address those elements of existing procurement programs needing additional emphasis and consistency.

NRC Concerns relative to ingress of potentially fraudulent and substandard parts into safety-related nuclear plant applications led to publication, in March 1989, of an Advanced Notice of Proposed Rulemaking (ANPR), a preliminary step towards changing the regulations which affect procurement activities. The industry response to this ANPR, developed in coordination with the Working Group, noted that self-initiated actions on the part of industry can provide more effective and timely improvements than would be brought about by revised regulations. In addition to the concerns relative to fraudulent activities, other factors such as the diminishing number of nuclear suppliers, and increased obsolescence of installed items, contributed to the need for industry to consider changes to the procurement process.

The Working Group has considered each of the areas described in the "Nuclear Procurement Issues" discussion paper, and has formulated two industry initiatives which encompass overall improvements to procurement practices. The first initiative, which addresses dedication of commercial grade items for use in nuclear safety related applications, was approved by the NUMARC Board of Directors in March 1989. The second initiative, the comprehensive procurement initiative, has been recommended to the NUMARC Board of Directors for consideration, and covers the remaining areas of improvements considered necessary. These include vendor audits, tests and/or inspections, information sharing, and general procurement considerations. The improvements delineated in the comprehensive initiative are intended to apply to the purchase of items for safety-related applications. The comprehensive initiative itself is brief and refers to this paper for a description of the improvements.

It should be noted that the improvements described in this paper are based on existing utility practices. For many utilities, it is not expected that implementation of these improvements would result in major revisions to organizational structures or existing programs. However, one central element which has been identified is the need for more engineering involvement in the procurement process, to support activities such as performance based audits and tests or inspections of procured items. The magnitude of these additional resources can be mitigated through the use of joint utility activities, such as shared vendor audits. Further detail on this involvement is discussed in the guideline documents referenced in this paper. It should be noted that long term benefits are expected to be derived from the improvements which would help compensate for the additional resource requirements. These



benefits include an overall increase in quality of procured items, as well as a reduced potential for costly future efforts to locate and assess safety significance of installed items which are suspected to be potentially substandard (e.g., NRC Bulletins 88-05 and 88-10).

#### INITIATIVE ON THE DEDICATION OF COMMERCIAL GRADE ITEMS

A significant step towards minimizing the potential for fraudulent or substandard products is improvement in utility practices for dedication of commercial grade parts for nuclear safety related use. Use of commercial grade parts has become increasingly common due to diminishing numbers of suppliers of safety grade items. In March 1989, the NUMARC Board of Directors adopted an initiative calling for utilities to review and, if necessary, develop or upgrade current programs to meet the intent of the guidance provided in an EPRI guideline document, EPRI NP-5652, Guideline for the Utilization of Commercial Grade Items in Nuclear Safety Related Applications (NCIG-07). This review and development was to be accomplished by January 1, 1990. In July 1989 industry workshops were held by NUMARC to provide information and discussion relative to the initiative. The guideline document provides four methods for dedicating commercial grade items:

1. Special tests and inspections
2. Commercial grade survey of supplier
3. Source verification
4. Acceptable supplier/item performance record

This guideline focuses on understanding and verifying an item's critical characteristics to provide a basis for product acceptance. NRC Generic Letter 89-02, issued in March 1989, conditionally endorsed the EPRI document.

#### FORWARD LOOKING NATURE OF INITIATIVES

With regard to the initiative on dedication of commercial grade items, as well as the comprehensive procurement initiative described below, it is intended that the program improvements described therein be implemented following the dates stated in the initiatives. It is not intended that the improved methods be backfit to procurement activities occurring prior to the stated implementation dates. The initiatives are intended to be "forward looking." NUMARC's letter to the Board of Directors, dated December 26, 1989, stressed this point relative to the initiative on dedication of commercial grade items. The fact that a utility chooses to make improvements in its current programs in accordance with the commercial grade item initiative and/or the comprehensive procurement initiative does not necessarily indicate previous programmatic deficiencies nor suggest that previously purchased items are deficient. If a utility has reason to believe that a technical deficiency exists relative to a specific item or items procured previous to the initiative implementation dates, this deficiency should be investigated, and methods as described in the initiatives may be of use to support this process. However, general programmatic reviews of past procurement practices with respect to the methods described in the initiatives are not warranted or intended.

## **COMPREHENSIVE PROCUREMENT INITIATIVE**

The comprehensive procurement initiative was approved by the NUMARC Board of Directors in June 1990. This initiative addresses the following areas, each of which is addressed in subsequent sections of this paper:

- Vendor Audits
- Tests and/or Inspections
- Obsolescence
- Information Exchange
- General Procurement

The comprehensive procurement initiative calls for utility review and assessment of the improvements discussed in the following sections of this paper by July 1, 1991, and implementation of the improvements into utility programs by July 1, 1992.

### **VENDOR AUDITS**

Improved vendor audits provide one method of increased assurance against the ingress of fraudulent or substandard parts. Program audits, which have been standard practice for implementing Appendix B requirements, review administrative controls and interfaces to assess the adequacy of written Quality Assurance programs to industry standards and regulatory requirements. These audits rely primarily on review of paperwork, while hardware, or



performance based, audits assess manufacturing process controls, design, inspection and test activities. A performance based audit generally involves the participation of individuals on the audit team who possess technical expertise relative to the item being procured.

Industry use of performance based audits, as appropriate, is called for as part of the comprehensive procurement initiative. Use of performance based audits is intended primarily for application to suppliers with approved Appendix B programs; however, performance based elements could be considered for commercial grade surveys or source verifications (Methods 2 and 3 of the CGI Guideline) to support procurement of commercial grade items. Improvements in auditing can come from incorporation of performance based elements into the audit process. Information applicable to performance based supplier audits can be found in EPRI NP-6630, Guidelines For Performance Based Supplier Audits (NCIG-16). The decision to use performance based audit methods is at the discretion of the utility or auditing organization and is based on a number of factors, including vendor history, item complexity and function, and the extent to which other verification methods (such as receipt testing or post installation testing) would be performed. Generally, performance based audits would provide more value for more complex items, while simpler items will lend themselves to tests and/or inspections, as described in the next Section. This does not imply that one or the other of these methods must always be used. Acceptance methods which do not rely on performance based audits or tests and/or inspections may be appropriate, based on item function and vendor performance record.

Initially, performance based elements would augment, rather than replace, existing programmatic audit methods. However, as the application of performance based audit becomes more widespread and experience is gained, it is expected that satisfactory results of a performance based audit will provide a basis to conclude that supplier quality assurance programs are acceptable.

This comprehensive initiative also endorses the concept of joint audits and sharing of audit information. Joint and shared audits provide for efficient utilization of resources and availability of appropriate technical expertise to support performance based audits. In this regard, NUMARC supported the merger of the Nuclear Section of CASE (Coordinating Agency for Supplier Evaluation) and NSQAC (Nuclear Supplier Quality Assurance Committee) into a single nuclear utility joint audit group known as NUPIC (Nuclear Procurement Issues Committee). NUPIC will continue the functions of both CASE (shared audit results) and NSQAC (joint audits) and will additionally provide a forum for utility discussion of procurement audit issues and findings and for timely dissemination of information relative to audit findings. Utilities should become aware of the functions of NUPIC and assess the benefits it provides to support utility procurement programs. It is also recognized that other joint audit groups (such as those of an equipment specific nature or affiliated with an NSSS Owners Group) may be utilized as well.

## TESTS AND/OR INSPECTIONS

The experiences with fraudulent or substandard materials have resulted in an increased need to consider appropriate post-receipt verification testing or inspection to assure quality and performance capability of purchased items. These tests and/or inspections are in addition to the standard receipt inspection and can include post installation functional testing. While tests and/or inspections can provide increased assurance of quality as well as a deterrent to fraudulent activities, it would be impractical to require universal testing and/or inspection of all received items. Rather, this testing and/or inspection should be viewed in the overall context of the procurement process, and the decision to perform testing and/or inspection should be based on item function, safety significance, supplier history, supply channels, and other factors. Tests and/or inspections can support procurement from Appendix B suppliers, or procurement of commercial grade items in accordance with Method 1 of the CGI Guideline document. Generally, the availability of a performance based audit for a given supplier and product should be considered in establishing the need for special tests and/or inspections, as the performance based audit alone can provide the technical assurance of product performance. However, absent a performance based audit, industry utilization of tests and/or inspections may be appropriate, particularly when dealing with suppliers which are not either original equipment manufacturers (OEM) or distributors authorized by the OEM. For OEMs or authorized distributors, the product and supply history should be considered in determining whether and to what degree performance based audits



or tests and/or inspections should be used. The NPEP Working Group reviewed and endorsed sections of an EPRI document which provides guidance for tests and/or inspections. As part of this comprehensive procurement initiative, utilities should consider this document, EPRI NP-6629, Guidelines for the Procurement and Receipt of Items for Nuclear Power Plants, as a useful reference. Certain portions of this document addressing tests and/or inspections (as noted in the following paragraphs), should be implemented into utility programs. The remaining information in the document should be considered to support program improvements as necessary, but is not required to be implemented under the comprehensive industry initiative. While the primary purpose of the document is to provide information relative to tests and/or inspections, it also provides information relative to other aspects of procurement, such as the development of technical and quality requirements. These provide a sound basis for item acceptance using testing or other acceptance methods. This document provides information relative to the need for engineering involvement in the delineation of procurement requirements, and in the planning of tests and the review of test results. Engineering involvement, particularly in the front end of the procurement process, is a central consideration in the improvement of procurement programs. The document also provides guidelines for detection of potentially fraudulent or substandard items, as well as potential test equipment considerations for the purposes of tests and/or inspections.

Utility implementation of this document under the comprehensive procurement initiative involves the following:

1. In order to improve utility practices in the area of tests and/or inspections, the guidance contained in the following sections of the document should be reviewed and assessed against existing utility programs:

4.4.2.2, "Receiving Inspection and Testing"

4.4.2.2.1, "Standard Receiving Inspection"

4.4.2.2.2, "Quality Control Receiving Inspection"

4.4.2.3, "Post-Installation Testing"

Appendices B, C, and D of the document provide additional supporting information with respect to the above areas. Appendix B provides an example of a data sheet which could be used for the performance of tests and/or inspections. Appendix D provides examples of test and inspection equipment that can be considered on an individual utility basis. Use of the Appendix B data sheet, or use of the particular types of test equipment listed in Appendix D, is discretionary, as these are intended as examples only.

2. Appendix C of the document provides useful guidance to assist in the identification of potentially substandard or fraudulent items. This guidance is an important element of the overall procurement improvement effort. This guidance should be applied to the purchase of all safety-related items, and may be considered, at utility discretion, for application to purchases of certain non safety-related items.

3. The sections noted above provide guidance directly addressing the conduct of tests and/or inspections. The remainder of Section 4 of the document, "The Procurement Process," includes information addressing various other aspects of the procurement process. This information relates to activities which support the proper conduct of tests and/or inspections as well as the appropriate use of engineering involvement in the procurement process. These are important areas, and this information should be carefully considered. However, implementation of this information into utility programs is discretionary.
  
4. Section 5 of the document, "Other Factors Affecting Quality," discusses factors such as training and communications within the utility. Use of this information is also discretionary.

#### OBSOLESCENCE

Obsolescence is another concern which is affecting procurement of replacement parts. When the need arises to replace an obsolete component, two methods have historically been available. The first method is to perform a technical evaluation to justify an alternative replacement, and, where necessary, to utilize the design change process to effect the change. The second method which has been used is to obtain a replacement item from the surplus market. The Working Group recognizes that the surplus product market offers direct savings in continuing the use of manufacturer's outdated designs while at the



same time allowing end user utilities to sustain previously established design approval. However, this surplus market has been a primary arena for fraudulent business practices, namely refurbishing surplus products for resale as new. An example of the impact of these practices is provided by recent events relative to molded case circuit breakers where some utilities were purchasing outdated models. It is recommended that the first method above, using an alternative replacement and the design change process, should be considered where practicable. If the surplus market is used for the purchase of replacement parts, appropriate caution must be employed. Establishment of traceability to the original manufacturer, or performance of tests and inspections, as appropriate, is generally necessary to ensure product quality when dealing in the surplus market.

The NPEP Working Group reviewed an EPRI document that provides information relative to establishing technical requirements for replacement items, including like-for-like replacement, alternative replacement, and initial procurement for modifications. This document, EPRI NP-6406, Guideline for the Technical Evaluation of Replacement Items in Nuclear Power Plants (NCIG-11), is acknowledged by the Working Group as providing a sound process for a technical evaluation. Other existing utility processes have been identified which may differ from the EPRI methodology, but which are technically sound. Therefore, EPRI NP-6406 provides useful information, but industry usage of this document is not required as part of the comprehensive procurement initiative.

The Working Group additionally reviewed an EPRI document that provides information relative to preparing specifications. This document, EPRI NP-5638, Guidelines for Preparing Specifications for Nuclear Power Plants (NCIG-04), has been acknowledged by the Working Group as providing a useful source of information to utilities in developing specifications for replacement items. As with the EPRI NP-6406 document above, this initiative does not call for industry usage of the specification document, but rather acknowledges that the information contained therein may be useful as a source reference.

#### INFORMATION EXCHANGE

Exchange of procurement information facilitates better utilization of utility resources, and provides a mechanism for timely notification of potentially substandard items and procurement audit experiences.

Several mechanisms are available to facilitate information exchange. The first is through joint audit organizations, which provide a forum for sharing of audit problems, findings, and exchange of general procurement information. In addition, other information networks are currently in use for sharing of procurement and parts information.

The second major mechanism for information exchange is INPO Nuclear Network. Utilities should use this industry computer network to exchange procurement and quality information. Two Network topics are available for this purpose. A topic entitled "Parts and Materials Information Exchange" has recently been established. The purpose of this topic is to facilitate the exchange of parts

and materials-related information. Typical uses of this topic include requests for availability of needed parts, exchange of information regarding methods of dedication of commercial grade items, exchange of information regarding problems with parts (e.g., 10 CFR Part 21 notices, vendor bulletins, NRC information), and exchange of other information relative to parts and materials. A Network topic also exists for the purpose of exchange of quality assurance information. The "Nuclear Quality Assurance Information Exchange" topic may be used to exchange information regarding quality assurance audit problems and results, vendor experiences, and exchange of other information relative to quality assurance issues.

Information exchange through either of the above mechanisms must be of an appropriate nature due to possible restraint of trade concerns. Objective, factual information can be exchanged. Subjective assessments should be avoided.

#### GENERAL PROCUREMENT

Minor changes to several key aspects of general procurement practices can be significant in improving product quality and minimizing the impact of fraudulent practices. The comprehensive procurement initiative addresses the following additional areas of general procurement:

The participation of necessary engineering and other technical personnel in the audit and inspection processes is important to assure the technical



performance capability of purchased items. This commitment is implicit in industry adoption of guidance in the above-referenced EPRI documents (or Sections thereof) addressing dedication of commercial grade items, procurement and receipt, and performance based auditing. These documents offer considerations for engineering involvement in various aspects of the procurement process.

The decision as to which method will be used (and the extent of application) to provide the basis for product acceptance (e.g., performance based audit, tests and/or inspections, traceability, or other basis) should, to the extent possible, be made at the front end of the procurement process, and factored into the initial procurement requisitions and specifications.

Items should be procured through normal supply channels where practicable. This involves direct procurement and shipment from the manufacturer or through authorized distributors. Items procured through other channels should be treated with caution and should generally be subject to traceability to the original manufacturer or performance of tests and/or inspections as appropriate. Items should be specified as "new" on purchase orders, to avoid unwanted substitution of used or refurbished items.

#### **ADDITIONAL CONSIDERATIONS**

For either OEMs or suppliers authorized by the OEM with a proven performance record, implementation of the improved procurement methods discussed in this paper need not be put into place until completion of the audit cycle which

exists at the time of implementation of the comprehensive procurement initiative. In other words, existing audits or other documentation providing a basis for procurement from the above sources remain valid at the time of initiative implementation.

Overall, these improvements should be considered as a whole, with the individual areas of improvement, as discussed in this paper, applied as necessary to procurement of a given item. It is not intended that all of the improved practices be applied universally to all purchased items. Reasonable assurance remains the key consideration in determining which methods should be used for procurement of a given item, taking into account factors such as item function, safety significance, and supplier history.

## CONCLUSION

NUMARC believes the above improvements, implemented as a whole through the industry initiative process, will provide significant improvement to the procurement process, and will adequately address the problem of potentially fraudulent or substandard components. Implementation of these changes should obviate the need for changes in the regulations at this time. Moreover, these self-initiated improvements should be implemented and the effects assessed prior to determination of the need for any further industry action.



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