



DEPARTMENT OF THE NAVY  
COMMANDER, NAVY INSTALLATIONS COMMAND  
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CNICINST 1710.2B  
N9  
23 Oct 2024

CNIC INSTRUCTION 1710.2B

From: Commander, Navy Installations Command

Subj: MORALE WELFARE AND RECREATION BUSINESS WATCH PROCESS FOR  
CATEGORY C ACTIVITIES

1. Purpose

a. To implement policy for monitoring and correcting sustained financial underperformance by Morale, Welfare, and Recreation (MWR) Category C activities. The ongoing business watch process is to actively engage and communicate to ensure each business activity achieves the planned financial performance.

b. This is an update to address financial responsibilities and reporting of MWR Category C activities and reestablish requirements for activities to be designated Fact of Life (FoL) operations. This policy is a complete rewrite and should be reviewed in its entirety.

2. Cancellation. CNICINST 1710.2A.

3. Responsibility

a. Commander, Navy Installations Command (CNIC) Headquarters (HQ) will:

(1) Exercise oversight to ensure this policy and guidance is executed accordingly.

(2) Generate a listing of activities that meet the criteria for underperformance as established herein and distribute the results to the regions on a monthly basis.

(3) Establish a FoL review board to assess all exemption submissions and make recommendations to the HQ nonappropriated fund (NAF) Fund Administrator.

b. Region Commanders (REGCOM) will:

(1) Implement the guidance herein and establish regular reporting for MWR Category C Activity performance under their cognizance and with the support of the region N9 and N94.

(2) Monitor MWR financial performance throughout the fiscal year.

4. Scope and Applicability. This instruction applies to CNIC HQ, regions and installations.

5. Background

a. The CNIC Business Watch process implements preventive and corrective actions resulting in improved long-term financial stability of the nonappropriated fund instrumentality (NAFI) and ensures quality programs and services for Sailors and family members in future years.

b. Terms and definitions

(1) Category C Activity. These programs provide recreational activities and services that contribute to building a sense of community and enjoyment. Activities in this group have the capability to generate sufficient income to cover operating expenses. Consequently, these activities are authorized limited appropriated fund support.

(2) MWR Fund. A NAFI as maintained and reported within the CNIC Fleet and Family Readiness (N9) NAF accounting system.

(3) Negative Cash Flow. Negative cash flow is defined as net income plus depreciation netting less than zero. Operating with negative cash flow indicates the fund or activity is not generating sufficient cash to support direct operating expenses and future recapitalization.

(4) Overdrawn Cash. Overdrawn cash is defined as having the dollar value of checks or payments processed exceed available operational cash. Having overdrawn cash indicates a serious liquidity problem that must be addressed immediately.

(5) Variance to Budget. Term that describes instances where actual revenues and expenses are different than planned. An unfavorable, or negative, budget variance is indicative of a budget shortfall, which may occur because revenues are lower than planned or expenses are higher than planned.

6. Policy

a. MWR region funds and their installation MWR Category C operations are integral components of the overall resourcing of MWR programs and must be operated prudently to ensure continued financial viability. NAF proceeds are used to augment appropriated fund support of installation level facilities and programs around the world. To sustain these critical quality of life programs, continual oversight of MWR financial performance is required. MWR funds are expected to maintain sufficient cash to ensure a positive balance in their checking account at all times to prevent an overdrawn or negative cash position.

b. The Business Watch Process is a tool to identify underperforming MWR Category C activities and assures installation, regional, and HQs subject matter experts proactively analyze and address underperforming activities. The MWR program standards have been developed to

provide clear and valuable guidelines to attain and maintain positive performance results for the field activities. These standards offer program focused tools for installation activities, such as the use of weekly flash reports by food and beverage activities to monitor real time performance and enabling fast response to negative trends. By actively addressing underperformance on a timely basis, solutions can be implemented to avoid degraded or reduced services to Sailors and their families and ensure the financial solvency of the activity

c. Financial Underperformance

(1) Financial underperformance occurs when an activity fails to meet planned budgetary goals.

(2) Performance is tracked on a rolling 12-month basis utilizing key performance indicators (KPIs) identified in MWR policy and in published program specific standards. Activity managers at the installation level and region managers should produce monthly reports and track performance against program specific KPIs to quickly identify negative trends.

(3) Criteria for Activity Underperformance

(a) Negative cash flow of \$10,000 or more.

(b) Negative variance to budget by three percent or more.

d. Assessment process. The Fleet & Family Readiness Headquarters Support Service Office (CNIC HQ N94) will generate a listing of negative cash flow of \$10,000 or more and negative variance to budget by three percent for activities no later than 15 business days after the close of each month and will distribute the results to the Regional Business Office (RBO) of the underperforming activity and CNIC HQ N92 Program Manager for review and additional research.

e. Notification and Response Process

(1) After two consecutive months of negative performance, HQ N94 will notify the RBO, region program director (RPD), HQ N92 and HQ Program Manager that the activity has been placed on the Watch List. RBO or RPD will notify the installation MWR Director of the underperforming activity placed on the Watch List. If the activity is a food and beverage operation, the activity will be required to send weekly flash reports to the RPD. The region or installation representative will initiate contact with the appropriate CNIC HQ N92 program manager via e-mail to inform them of the intended corrective actions to reverse underperformance of the activity or fund.

(2) After six months of cumulative negative performance the region and HQ program managers will work cooperatively to assess actions taken to date and modify, as necessary in order to achieve financial solvency.

(3) After 12 rolling months of cumulative negative performance, if corrective actions have not resulted in improved performance, HQ N9 will issue an official Business Watch letter notification to the REGCOM.

(a) Upon receipt of this notification, REGCOM will provide a written response to HQ N9 no later than 30 business days from receipt.

(b) The response will confirm the understanding if a FoL exemption has not been granted, per the process detailed in section f., REGCOM will set a timeline not to exceed an additional six months for the activity to reach financial solvency or close.

f. FoL Exemption

(1) The region may request consideration for a MWR Category C activity to be granted a FoL exemption. All previously approved FoL exemptions prior to this instruction must be resubmitted.

(2) FoL Exemption Process will include the following

(a) Submit package to HQ N9 including information required in the Fact of Life Exemption Guidance for MWR Category C Activities found in the MWR eLibrary at [https://www.cnic-n9portal.net/mwr\\_elibrary/](https://www.cnic-n9portal.net/mwr_elibrary/).

(b) FoL Board will be comprised of HQ N94, HQ N92, and two region representatives. The board will review packages, set parameters for financial performance and send recommendations to HQ N9B for approval or disapproval.

(c) Exemptions will remain in effect for four years, unless otherwise indicated by the exemption approval.

(d) FoL Board will review FoL exempted activities every two years for compliance with parameters as set forth in the exemption approval notification.

7. Records Management

a. Records created as a result of this notice, regardless of format or media, must be maintained and dispositioned per the records disposition schedules located on the Department of the Navy Assistant for Administration, Directives and Records Management Division portal page at <https://portal.secnav.navy.mil/orgs/DUSNM/DONAA/DRM/Records-and-Information-Management/Approved%20Record%20Schedules/Forms/AllItems.aspx>.

b. For questions concerning the management of records related to this instruction or the records disposition schedules, contact the local records manager or the OPNAV Records Management Program (DNS-16).

8. Review and Effective Date. Per OPNAVINST 5215.17A, CNIC (N9) will review this instruction annually on the anniversary of its effective date to ensure applicability, currency, and consistency with Federal, Department of Defense, Secretary of the Navy, and Navy policy and statutory authority using OPNAV 5215/40, Review of Instruction. This instruction will be in effect for 10 years unless revised or cancelled in the interim and will be reissued by the 10-year anniversary date if it still required, unless it meets one of the exceptions in OPNAVINST 5215.17A, paragraph 9. Otherwise, if the instruction is no longer required, it will be processed for cancellation as soon as the need for cancellation is known following the guidance in OPNAV Manual 5215.1 of May 2016.



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**Releasability and distribution:**

This notice is cleared for public release and is available electronically only via CNIC SharePoint, <https://flankspeed.sharepoint-mil.us/sites/CNICGlobalHub/directives/>.