

**FINANCE AND OPERATIONAL PERFORMANCE COMMITTEE
DECISIONS AND RECOMMENDATIONS TO THE BOARD**

PURPOSE:

1. This report serves to inform the Board about the decisions taken by the Finance and Operational Performance Committee (FOPC) since the Twenty-sixth Board Meeting (May 2012).

PART 1: INTRODUCTION

2.1 Since the Twenty-Sixth Board Meeting (May 2012), the Finance and Operational Performance Committee (FOPC) has met once, on 28-29 August 2012. Viorel Soltan and John Monahan serve as Chair and Vice-Chair, respectively, of the Committee.

2.2 This report presents to the Board the decisions taken by the FOPC at the 4th FOPC meeting and other activities undertaken by the Committee since the last Board meeting. The paper is divided as follows:

Part 2: Decisions taken by FOPC

- i. *Budget Reallocation*
- ii. *Exceptions to Salary Threshold*
- iii. *FOPC Charter amendments*

PART 2: DECISIONS TAKEN BY THE FOPC

2.3 At its Twenty-Sixth Meeting, the Board affirmed that the FOPC is authorized to approve changes to budgeted operating expenditures that do not result in an increase in the amount of the Board-approved operating expenses budget for any financial year. The Board also authorized the FOPC to establish a framework to determine thresholds and delegations for authority on adjustments, reallocations or additions within the Board-approved operating expenses budget. The FOPC discussed the proposed framework. Debate focused on whether the threshold should be a percentage of each budget category or a fixed dollar amount. The committee agreed collectively that setting a fixed dollar amount as well as a percentage would ensure that percentage changes to small budget lines will not automatically trigger approval levels outside the Secretariat. The FOPC applied a materiality principle and agreed to the following decision point.

FOPCo4/DPo1: Budget Reallocation

In accordance with its authority to approve a framework for budget adjustments, reallocations or additions within the Board-approved operating expenses budget (GF/BM26/DP4), the Finance and Operational Performance Committee (the “FOPC”) decides:

- a. ***The Secretariat shall present to the FOPC for prior approval any change to an expense category line item that results in a variation of both more than 10% and US\$ 2.5 million from the corresponding line item in the Board-approved operating expenses budget; and***
- b. ***The Secretariat may approve any other changes to an expense category line item in the Board-approved operating expenses budget.***

2.4 The table here below illustrates the FOPC’s intent in allocating responsibilities:

Decision Authority on Expense Category Line Item Variances	Variance is Greater than 10%	Variance is 10% or Less
Variance Amount is Greater than US\$ 2.5 million	FOPC	Secretariat
Variance Amount is US\$ 2.5 million or Less	Secretariat	Secretariat

Exceptions to Salary Thresholds

- 2.5 The Secretariat identified rare, but potential situations where qualified and desired candidates to fill important positions in the organization could require a salary that exceeds CHF 245,000 per year (the “Salary Threshold”), which the Secretariat is not authorized to approve. The FOPC discussed the existing Board policies for approving staff salaries above the Salary Threshold, including the Board-adopted Human Resources Policy Framework (the “HR Policy”) that reserved such approvals with the Board and its subsequent decision to delegate approval authority to a Remuneration Group (GF/B21/DP10).
- 2.6 The FOPC noted that the Remuneration Group, comprised of the Chair and Vice-Chair of the Finance and Audit Committee (the “FAC”) as well as one constituency member from each of the Implementer and Donor blocs, had not been constituted to date. Although GF/B21/DP10 delegated approval authority to the Remuneration Group, such decisions were to follow criteria developed by the FAC and approved by the Board. This criteria also had not been developed or presented to the Board.
- 2.7 The FOPC acknowledged its decision-making authority on “approval of modifications to Board-approved human-resources policies,” as set forth in its Charter. It also noted that one of the key purposes of the first-phase of governance reforms, which included the creation of the FOPC and other Board Committees, (GF/B25/DP7), was to ensure the Board, Committees and Secretariat operated at the appropriate altitude. In other words, the intent was to allow the Board to focus on broader strategic issues. The FOPC noted issues related to the approval of staff salaries above the Salary Threshold would be rare and exceptional. Nevertheless, there should be a clear process to ensure the Secretariat has timely and appropriate support during critical recruitment decisions.
- 2.8 Based on its authority under the Charter and the spirit of the governance reforms, the FOPC decided to establish a Remuneration Group to approve staff salaries above the Salary Threshold in accordance with GF/B21/DP10. Furthermore, it decided on several modifications in relation to the Remuneration Group’s working modalities and its composition to align with the current governance structure. In doing so, it acknowledged the need to supersede previous policies, including previous Board decisions, on the issue of approving staff salaries above the Salary Threshold so future reference on such matters would be centralized with the FOPC, as provided in its Charter.

2.9 As such, the FOPC approved the following decision point:

FOPCo4/DPo2: Exceptions to Salary Threshold

- 1. The Finance and Operational Performance Committee (the “FOPC”) acknowledges:**
 - a. Under The Global Fund Human Resources Policy Framework (GF/EDP/08/16) (the “HR Policy”), the Board must approve any staff salaries exceeding CHF 245,000 (the “Salary Threshold”);**
 - b. The Board delegated the authority to approve new staff salaries above the Salary Threshold to a Remuneration Group, comprised of the Chair and Vice-Chair of the Finance and Audit Committee (the “FAC”) and one constituency member from each of the Board’s Donor and Implementer Blocs (GF/B21/DP10); and**
 - c. As a result of the first phase of governance reforms adopted by the Board (GF/B25/DP7), the FOPC has decision-making authority over modifications to Board-approved human resources policies.**
- 2. The FOPC decides to establish the Remuneration Group comprised of the following:**
 - a. The FOPC Chair;**
 - b. The FOPC Vice-Chair;**
 - c. One FOPC Member from the Implementer Bloc; and**
 - d. One FOPC Member from the Donor Bloc.**
- 3. The FOPC decides the Remuneration Group will approve any staff salaries above the Salary Threshold by simple majority. The Board shall be informed of such approvals in Executive Session at its next in-person meeting. Decisions on the salary of the Executive Director and the Inspector General remain with the Board.**
- 4. In accordance with the FOPC Charter, this decision supersedes previous policies on approving any staff salaries exceeding the Salary Threshold, including GF/B21/DP10.**

FOPC Charter Amendments

2.10 Prior to the 4th FOPC Meeting, the Chair and Vice-Chair of the FOPC discussed with the Chair and Vice-Chair of the Audit and Ethics Committee (the “AEC”) proposed revisions to the AEC and FOPC Charters.

2.11 The FOPC supported the proposed changes. The shift of responsibility entails the following:

- The AEC to oversee over all stages of the production and presentation of Global Fund financial reports, including recommending the audited financial statements to the Board and overseeing adherence to applicable financial reporting and accounting policies and standards;
- The AEC to oversee follow-up to the findings and recommendations of the external auditors, including referring matters to other Board committees that have the mandate and authority to address such matters; and
- The AEC to have delegated authority to recommend to the Board the adoption or modification of financial accounting and reporting policies.

2.12 The FOPC also agreed that the AEC would present in its Report to the Board (GF/B27/07) the revised Charters and a recommended decision point for the Board to adopt the revisions.