



Florida Department of TRANSPORTATION

Office of Inspector General Kristofer B. Sullivan, Inspector General

Audit Report No. 20I-008
CSXT 2019 Indirect Rate

DocuSigned by:

Kristofer B. Sullivan

66AAC6E338F64F4...

April 8, 2021

What We Did

The Florida Department of Transportation's (Department) Office of Inspector General (OIG) audited the 2019 indirect rates submitted by CSX Transportation, Inc. (CSXT) to determine whether rates are reasonable, based on allocable and allowable costs, and supported by transparent and understandable records. We also reviewed the Indirect Cost Rates Reporting Package (audit report) prepared by Ernst & Young, LLP and performed substantive testing as part of our evaluation.

What We Found

We determined the rates submitted by CSXT are reasonable and based on allocable and allowable costs for use in billing railroad-highway projects. **We also determined** CSXT's accounting procedures, including supporting documentation continue to meet the visibility rule set forth in Title 48 Code of Federal Regulations (C.F.R.) Part 9904 – Cost Accounting Standards (CAS) Section 9904.405-50,¹ which requires transparent and readily understandable records and procedures to deem expense allowability.

What We Recommend

We recommend the Department's Freight and Multimodal Operations Office review and approve CSXT's 2019 indirect cost rates for use in billing costs for railroad-highway projects and communicate this decision to the Federal Highway Administration.

¹ Incorporated into the Federal Acquisition Regulation (FAR) by reference at 48 C.F.R. 31.201-6(c).

**Office of Inspector General
Florida Department of Transportation**

TABLE OF CONTENTS

BACKGROUND AND INTRODUCTION	3
RESULTS OF REVIEW	5
APPENDIX A – Purpose, Scope, Methodology	8
APPENDIX B – 2019 Rate Schedule (As Submitted)	9
APPENDIX C – Affected Entity Response	10
APPENDIX D – Management Response	11
DISTRIBUTION	12
PROJECT TEAM	13
STATEMENT OF ACCORDANCE	13

**Office of Inspector General
Florida Department of Transportation**

BACKGROUND AND INTRODUCTION

CSX Transportation, Inc. (CSXT), a wholly-owned subsidiary of CSX Corporation, a publicly traded company, is a Class I railroad headquartered in Jacksonville, Florida. It owns and operates 20,500 route miles of track in 23 states east of the Mississippi River, the District of Columbia, and two Canadian provinces. As of December 2019, CSXT employed approximately 21,000 individuals, which included 17,000 union employees. CSXT transports a variety of freight across the network servicing three primary lines of business including merchandise, coal, and intermodal.

CSXT completes railroad crossing and other projects that support the Florida Department of Transportation's (Department) highway construction projects. The Department reimburses CSXT for these costs, including direct union labor, labor surcharges (e.g., benefits), and indirect overhead costs. CSXT bills the Department for labor surcharge and indirect overhead costs in the form of a percentage rate applied to direct union labor.

Criteria

The following regulations authorize the Department's payment of labor surcharge and indirect costs rates for highway-related railroad construction, define allowable costs for purposes of inclusion in the rates, and set minimum standards for calculation methods and supporting records:

- Title 23, Part 646, Code of Federal Regulations (C.F.R.), Subpart B-Railroad Highway Projects;
- 23 C.F.R. 140-Reimbursement, Subpart I-Reimbursement for Railroad Work;
- 48 C.F.R. 31-Federal Acquisition Regulation, Contract Cost Principles and Procedures; and
- 48 C.F.R. 9904.405-Cost Accounting Standards, Accounting for Unallowable Costs.

Rate Calculation Procedures

CSXT calculates separate indirect cost rates for the engineering and transportation craft types. Department projects are most frequently billed using the engineering craft rate.

CSXT uses two platforms in the development of the indirect rate:

- its financial management system, Oracle, where accounts' allowability are identified and labeled; and
- an Excel table referred to as the Overhead Rate Table where additional adjustments are made.

The OIG has identified and assessed the following risks as particularly relevant to the scope of its review:

**Office of Inspector General
Florida Department of Transportation**

- risks associated to changes made to the Oracle database;
- risks inherent to the Oracle extraction process; and
- risks inherent to the manual adjustment process recorded in Excel.

Adjustment to 2014-2018 Indirect Rates Billed

While conducting this audit, CSXT informed the Department that the actual overhead rates calculated and approved for years from 2014 to 2018 were higher than the rates previously approved by the Federal Highway Administration and billed to the Department for costs during those years. Due to these actual rate variances, CSXT requested to bill the Department for the additional costs.

Per 23 C.F.R. 140.907 - Overhead and Indirect Construction Costs, indirect cost rates should be “adjusted at least annually taking into consideration known anticipated changes and correcting for any over or under applied costs for the preceding period.”

Freight and Multimodal Operations (FMO) Office stated the following:

- The rates billed by CSXT during the period of 2014-2018 were based on the most recently approved rates at each time period (2009, 2014, and 2016 rates);
- CSXT opted to only bill the actual rate to open projects with labor charges from 2014 to 2018; and
- Going forward, CSXT will completing an annual rate true up to actuals and charging the Department accordingly on active applicable projects.

FMO Office Decision:

Based on discussions with CSXT, District 2, and our office, the Department’s FMO Office determined that these additional costs are allowable expenses not previously captured under previous invoices and approved the CSXT invoices, which included supporting documentation.

The FMO Office’s decision to approve the invoices for the additional indirect cost charges during the period of 2014-2018 does not affect the 2019 rate.

**Office of Inspector General
Florida Department of Transportation**

RESULTS OF REVIEW

Based on our review of the indirect rate development process, coupled with our assessment of Ernst & Young's, LLP (EY) indirect rate audit, **we determined** the costs associated with the rates (**Appendix B**) submitted by CSXT are reasonable, allocable, and allowable for use in billing railroad-highway projects. **We also determined** CSXT's accounting procedures continue to meet the visibility rule set forth at 48 C.F.R. 9904.405-50, which requires transparent and readily understandable records and procedures to deem allowability. Based on our review of CSXT's proposal, **we recommend** the Department's Freight and Multimodal Operations Office review and approve CSXT's 2019 indirect cost rates for use in billing costs for railroad-highway projects and communicate this decision to the Federal Highway Administration.

During our review of the indirect rate, we observed the following.

Year-over-Year Variance on the Engineering Craft

The Engineering craft had an overall rate decrease of 2.7% during fiscal year 2019, see **Table 1**. Some of the major contributors to the rate decrease are costs associated with:

- Higher collective bargaining agreement during 2019, which increased by \$3.5 million due to minor increases across various accounts and that are related to recently renegotiated collective bargaining agreements; and
- Lower project management during 2019, which decreased by \$13 million.

Table 1: Engineering Rate Variance Analysis

Engineering Cost Pools	2019 Submitted Rate	2018 Audited Rate	Rate Change 2019 vs. 2018
Collective Bargaining Agreement	13.2%	12.1%	1.1%
Department Support Costs	25.0%	25.5%	-0.5%
Fringe	33.8%	35.1%	-1.3%
Payroll Taxes	25.1%	24.7%	0.4%
Project Management	22.3%	24.7%	-2.4%
Small Tools, Safety & Supplies	3.0%	3.1%	-0.1%
Training	0.2%	0.2%	0.0%
Vehicle & Equipment	34.8%	34.7%	0.1%
Engineering Subtotal	157.4%	160.1%	-2.7%

Source: CSXT Indirect Cost Rates Reporting Packages for the fiscal years ending December 31, 2019, and December 31, 2018 (2019 Gov't OH Rate Variance).

Year-over-Year Variance on the Transportation Craft

The Transportation craft had an overall rate decrease of 4.6% during fiscal year 2019, see **Table 2**. Some of the major contributors to the rate decrease are costs associated with:

**Office of Inspector General
Florida Department of Transportation**

- Lower collective bargaining agreement costs during 2019, which decreased by \$22 million; and
- Lower fringe during 2019, which decreased by \$24 million.

Table 2: Transportation Rate Variance Analysis

Transportation Cost Pools	2019 Submitted Rate	2018 Audited Rate	Rate Change 2019 vs. 2018
Collective Bargaining Agreement	20.6%	23.4%	-2.8%
Fringe	50.2%	52.2%	-2.0%
Payroll Taxes	31.3%	30.9%	0.4%
Project Management	18.6%	19.3%	-0.7%
Training	1.9%	1.4%	0.5%
Transportation Subtotal	122.6%	127.2%	-4.6%

Source: CSXT Indirect Cost Rates Reporting Packages for the fiscal years ending December 31, 2019, and December 31, 2018 (2019 Gov't OH Rate Variance)

During our review of the indirect rate, we observed a new development, the Standard 8% Self-Insured Additive, which impacted the final rate value.

Standard 8% Self-Insured Additive

During our audit, CSXT identified that Title 23 C.F.R. 140.906 3(b) (2) allows for “a fixed rate of 8% of direct labor costs for worker compensation and public liability and property damage insurance together” when the company is a self-insurer. CSXT has not historically included these types of insurance costs in the indirect costs claimed in the rates. The only insurance-related cost currently claimed in the rates is for employee fringe healthcare insurance and vehicle insurance.

CSXT was not aware of this regulatory provision at the time of its original submission of the 2019 rate audited by EY during the second quarter of 2020. Therefore, **Table 3**, the Schedule of Direct Labor and Indirect Cost Rates, audited by EY, does not include this standard 8% additive. The table includes the Craft Rates (explained in the prior section), the General Office Rate, and the Standard Additive – Force Account Insurance, for a total of 222.1% for the Engineering rate and 187.3% for the Transportation rate. However, the company requested that we include this standard additive rate of 8% in our review and recommendation of the 2019 rate to the Department for approval. This brings the total Engineering rate to 230.1% and the total Transportation rate to 195.3%. See **Table 4**.

**Office of Inspector General
Florida Department of Transportation**

Table 3: Schedule of Direct Labor and Indirect Cost Rates for the year ended December 31, 2019

Component 2019	Engineering	Transportation
Craft Rate	157.4%	122.6%
General Office Rate	48.7%	48.7%
Standard Additive - Force Account Insurance	16.0%	16.0%
Total Labor - Based Rates by Craft	222.1%	187.3%

Source: CSX Transportation, Indirect Cost Rates, Reporting Package, for the year ending December 31, 2019

Table 4: Revised Self-Insured Schedule for the year ending December 31, 2019

Revised Component 2019	Engineering	Transportation
Craft Rate	157.4%	122.6%
General Office Rate	48.7%	48.7%
Standard Additive - Force Account Insurance	16.0%	16.0%
Standard Additive - Self-insured Other Insurance	8.0%	8.0%
Total Labor - Based Rates by Craft	230.1%	195.3%

Source: Sr. Manager Government Compliance| Accounting | CSX Transportation, Inc, Revised Reporting Package, for the year ending December 31, 2019

As per 23 C. F. R. 140.906 (3)(b)(2) - Labor costs, Labor surcharges, CSXT is a self-insured company in the applicable insurance categories (workers' compensation, property, and casualty), and CSXT can use the 8% additive rate, as long as these insurance costs are not included in total benefit costs. Including the 8% additive rate, the total Labor-Based Rates by Engineering Craft had an increase of 8.0% and the total Labor-Based Rates by Transportation Craft had an increase of 6.1%. See **Table 5**.

Table 5: Comparison of 2018 and 2019 Total Labor-Based Rates by Crafts

	2018	2019	Rate
Engineering Cost Pools	Component	Revised Component	Change 2019 vs. 2018
Craft Rate	160.1%	157.4%	-2.7%
General Office Rate	46.0%	48.7%	2.7%
Standard Additive - Force Account Insurance	16.0%	16.0%	0.0%
Standard Additive - Self-insured Other Insurance	n/a	8.0%	8.0%
Engineering Subtotal	222.1%	230.1%	8.0%
	2018	2019	Rate
Transportation Cost Pools	Component	Revised Component	Change 2019 vs. 2018
Craft Rate	127.2%	122.6%	-4.6%
General Office Rate	46.0%	48.7%	2.7%
Standard Additive - Force Account Insurance	16.0%	16.0%	0.0%
Standard Additive - Self-insured Other Insurance	n/a	8.0%	8.0%
Transportation Subtotal	189.2%	195.3%	6.1%

Source: CSX Transportation, Indirect Cost Rates Reporting Package for the year ending December 31, 2018; and Sr. Manager Government Compliance| Accounting | CSX Transportation, Inc, Revised Reporting Package, for the year ending December 31, 2019

**Office of Inspector General
Florida Department of Transportation**

APPENDIX A – Purpose, Scope, Methodology

The **purpose** of this engagement was to determine whether CSXT's:

- fiscal year 2019 indirect rates are reasonable, allowable, and adequately supported, and
- supporting records and procedures are transparent and readily understandable.

The **scope** of this audit consisted of the proposed 2018 indirect rates submitted by CSXT and associated records and supporting documentation, including EY's audit opinion.

The **methodology** included:

- reviewing relevant regulations, including (but not limited to) 23 C.F.R. 140, 23 C.F.R. 646, and 48 C.F.R. 31 FAR;
- reviewing CSXT's procedures and rate preparation checklists;
- identifying and reviewing account classification differences between 2018 and 2019;
- reperforming export of accounting data from system;
- recompiling data and reperforming rate calculations;
- performing comparative analysis on 2018 and 2019 rate data;
- reviewing changes in the adjustment structure for the 2019 rates;
- interviewing key management staff and reviewing selected workpapers prepared internally by CSXT; and
- reviewing EY's audit plan and selected workpapers.

**Office of Inspector General
Florida Department of Transportation**

APPENDIX B – 2019 Rate Schedule (As Submitted)

Component	Operating Expense G/L Balance	Recapture of Capitalized Costs	Unallowable Costs	Voluntarily Excluded Costs	Adjustments and Reclassifications	Final Claimed Costs	Indirect Rate
Engineering Craft Direct Labor	\$ 252,714,545	\$ 207,640,235	\$ -	\$ -	\$ (26,245,461)	\$ 434,109,319	100.0%
Engineering Cost Pools							
Collective Bargaining Agreement	24,422,519	30,971,782	(1,491,894)	(577)	3,506,447	57,408,277	13.2%
Department Support Costs	152,844,261	42,754,783	(463,510)	(65,486,515)	(21,240,213)	108,408,806	25.0%
Fringe	81,295,159	71,220,805	-	(631,452)	(4,890,532)	146,933,980	33.8%
Payroll Taxes	56,302,584	51,016,521	-	-	1,802,202	109,121,307	25.1%
Project Management	47,350,266	33,550,414	-	-	15,884,366	96,785,046	22.3%
Small Tools, Safety & Supplies	12,910,025	4,611,847	(3,807)	(2,177,928)	(2,223,816)	13,116,321	3.0%
Training	787,186	7,924	-	-	-	795,110	0.2%
Vehicle and Equipment	74,083,173	74,427,213	(165,564)	(1,922,678)	4,722,520	151,144,664	34.8%
Subtotal Indirect Costs	\$ 449,995,173	\$ 308,561,289	\$ (2,124,775)	\$ (70,279,150)	\$ (2,439,026)	\$ 683,713,511	157.4%
Transportation Craft Direct Labor	\$ 567,830,024	\$ 2,896,891	\$ -	\$ (1,841,039)	\$ (1,050,568)	\$ 567,835,308	100.0%
Transportation Cost Pools							
Collective Bargaining Agreement	121,669,664	25,879	(2,996,435)	(31,818)	(1,750,150)	116,917,140	20.6%
Department Support Costs	342,986,840	-	-	(342,986,840)	-	-	0.0%
Fringe	304,404,514	815,881	-	(12,158,705)	(7,898,118)	285,163,572	50.2%
Payroll Taxes	174,458,035	622,090	-	-	2,780,475	177,860,600	31.3%
Project Management	108,967,667	191,286	-	(18,153,671)	14,521,688	105,526,370	18.6%
Small Tools, Safety & Supplies	6,808,902	-	-	(6,808,902)	-	-	0.0%
Training	10,896,308	2,865	-	-	-	10,899,173	1.9%
Subtotal Indirect Costs	\$ 1,670,191,930	\$ 1,658,001	\$ (2,996,435)	\$ (980,139,936)	\$ 7,653,895	\$ 696,367,455	122.6%
General Office Direct Labor	\$ 1,012,004,877	\$ 214,739,646	\$ -	\$ (135,455)	\$ (25,700,965)	\$ 1,200,908,103	100.0%
General Office Cost Pools							
Fixed Costs	1,300,679,228	4,789,308	-	(903,728,229)	(8,491,464)	393,248,843	32.7%
General and Administration	1,497,036,789	14,607,860	(87,977,779)	(1,145,132,129)	(86,633,995)	191,900,746	16.0%
Subtotal Indirect Costs	\$ 2,797,716,017	\$ 19,397,168	\$ (87,977,779)	\$ (2,048,860,358)	\$ (95,125,459)	\$ 585,149,589	48.7%
Total Indirect Costs (Note 4)	\$ 4,917,903,120	\$ 329,616,458	\$ (93,098,989)	\$ (3,099,279,444)	\$ (89,910,590)	\$ 1,965,230,555	
Component							
	Engineering		Transportation				
Craft rates	157.4%		122.6%				
General Office rate	48.7%		48.7%				
Standard Additive - Force Account Insurance	16.0%		16.0%				
Standard Additive - Self-insured Other Insurance	8.0%		8.0%				
Total Labor-Based Rates by Craft	230.1%		195.3%				
Additional Rates							
Standard Additive - Materials Handling	5.0%		5.0%				

See accompanying Notes to Schedule

Source: Sr. Manager Government Compliance | Accounting | CSX Transportation, Inc.

Office of Inspector General
Florida Department of Transportation

APPENDIX C – Affected Entity Response



March 24, 2021

Tim Crellin, Deputy Audit Director of Intermodal
Florida Department of Transportation's Office of Inspector General
605 Suwannee Street, MS 44
Tallahassee, FL 32399-0450

Dear Mr. Crellin:

We have reviewed the draft audit report No. 201-008 (CSXT 2019 Fringe/Indirect Rate) received originally on March 5, 2021. We understand that we have the opportunity to provide a response within 20 working days. This communication is our response to that draft report.

We agree with the conclusions presented by Ernst & Young and Florida Department of Transportation's Office of Inspector General (FDOT OIG). We will implement these rates for billing upon receipt of the following:

1. The final audit report No. 201-008 from FDOT OIG
2. Approval of the rates from Florida Department of Transportation's Freight and Multimodal Operations Office
3. Approval of the rates from the Federal Highway Administration

Sincerely,

A handwritten signature in blue ink, appearing to read "Angela C. Williams", is written over the word "Sincerely,".

Angela C. Williams
Vice President & Chief Accounting Officer
CSX Transportation, Inc.

**Office of Inspector General
Florida Department of Transportation**

APPENDIX D – Management Response

On April 2, 2021, the OIG received the response from Rickey Fitzgerald, Manager of the Department's Freight and Multimodal Operations Office:

Finding 1 – Reasonable, Allocable, and Allowable Costs

Finding: We determined the costs associated with the rates submitted by CSXT are reasonable, allocable, and allowable for use in billing railroad-highway projects. We also determined CSXT's accounting procedures continue to meet the visibility rule set forth at 48 C.F.R. 9904.405-50, which requires transparent and readily understandable records and procedures to deem allowability.

Recommendation: We recommend the department's Freight and Multimodal Operations Office review and approve CSXT's 2019 indirect cost rates for use in billing costs for railroad-highway projects and communicate this decision to the Federal Highway Administration.

Response to Finding: We concur with the finding and recommendation.

**Office of Inspector General
Florida Department of Transportation**

DISTRIBUTION

Responsible Manager:

Kenyatta Lee, Chief, Modal Development, Freight and Multimodal Operations
Rickey Fitzgerald, Manager, Freight and Multimodal Operations
Robert Stapleton, Rail Operations Administrator, Freight, Logistics &
Passenger Operations

Internal Distribution:

Kevin J. Thibault, P.E., Secretary, Department of Transportation
Torey L. Alston, Chief of Staff
Courtney Drummond, P.E., Assistant Secretary for Engineering and Operations
Brad Thoburn, Assistant Secretary for Strategic Development
Stacy Miller, P.E., Assistant Secretary for Finance and Administration
L.K. Nandam, P.E., District One Secretary
Greg Evans, P.E., District Two Secretary
Phillip Gainer, P.E., District Three Secretary
Gerry O'Reilly, P.E., District Four Secretary
Jared Perdue, P.E., District Five Secretary
Stacy Miller, P.E., District Six Secretary
David Gwynn, P.E., District Seven Secretary
Nicola Liquori, CPA, Executive Director, Turnpike Enterprise

External Distribution:

Melinda Miguel, Chief Inspector General, Executive Office of the Governor
Sherrill Norman, Auditor General, State of Florida
Jamie Christian, Florida Division Administrator, Federal Highway Administration
Ralph Yoder, Executive Director, Florida Transportation Commission
Angela Williams, Vice President & Chief Accounting Officer, CSX Transportation, Inc.
Thomas McDuffie, Assistant Controller, CSX Transportation, Inc.
Amanda Hightower, Director SEC Reporting & Compliance, CSX Transportation, Inc.
Linsey Funston, Manager Government Compliance, CSX Transportation, Inc.
Sean Craig, Assistant General Counsel, CSX Transportation, Inc.

**Office of Inspector General
Florida Department of Transportation**

PROJECT TEAM

Engagement was conducted by:
Fernando Mojica, Auditor-in-Charge

Under the supervision of:
Mervat Bebawy, Auditor
Tim Crellin, Deputy Audit Director for Intermodal
Joseph W. Gilboy, Director of Audit

Approved by:
Kristofer B. Sullivan, Inspector General

STATEMENT OF ACCORDANCE

The Department's mission is to provide a safe transportation system that ensures the mobility of people and goods, enhances economic prosperity, and preserves the quality of our environment and communities.

The Office of Inspector General's mission is to provide independent and objective investigative and audit services that promote accountability, integrity, and efficiency within the Florida Department of Transportation and its partners.

This work product was prepared pursuant to section 20.055, Florida Statutes, in accordance with the Association of Inspectors General *Principles and Standards for Offices of Inspector General*, and conforms with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Please address inquiries regarding this report to the Department's Office of Inspector General at (850) 410-5800.