



# Florida Department of TRANSPORTATION

Office of Inspector General  
Kristofer B. Sullivan, Inspector General

DocuSigned by:

*Kristofer B. Sullivan*

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Audit Report No. 211-010  
CSXT 2020 Indirect Rate

October 13, 2021

## What We Did

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The Florida Department of Transportation's (Department) Office of Inspector General (OIG) audited the 2020 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

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**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, including supporting documentation, continue to meet the visibility rule set forth in Title 48, Part 9904, Code of Federal Regulations-Cost Accounting Standards, Section 405-50-Techniques for application, which requires adequate cost identification to deem expense allowability.

## What We Recommend

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**We recommend** the Department's Freight and Multimodal Operations Office review and approve CSXT's 2020 indirect cost rates for use in billing costs for railroad-highway projects and communicate this decision to the Federal Highway Administration.

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## **BACKGROUND AND INTRODUCTION**

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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 19,500 route miles of track in 23 states east of the Mississippi River, the District of Columbia, and two Canadian provinces. As of December 2020, CSXT employed approximately 19,300 individuals which included 15,700 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 the costs of these, including direct union labor, labor surcharges (e.g., benefits), and indirect overhead costs. CSXT bills for labor surcharge and indirect overhead costs in the form of a percentage rate applied to direct union labor.

### **Standard 8% Self-Insured Additive**

During the review of the 2019 indirect cost rates, CSXT requested that a Standard 8% Self-Insured Additive be included for review and approval. CSXT is a self-insured company in the applicable insurance categories (workers' compensation, property, and casualty) and we determined that CSXT could use the 8% additive rate as long as these insurance costs are not included in total benefit costs as outlined in Title 23, Part 140, Code of Federal Regulations (C.F.R.)-Reimbursement, Subpart I-Reimbursement for Railroad Work, Section 906(3)(b)(2) Labor surcharges.

In 2021, after further discussions with its legal team and evaluating the existing insurance requirements included in the government-funded agreements, CSXT has opted not to bill the standard self-insurance labor additive of 8% for the approved 2019 rate and has not included the additive in the rate schedule for the 2020 rate.

### **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 C.F.R., Part 646, Subpart B-Railroad Highway Projects;
- Title 23 C.F.R., Part 140 - Reimbursement, Subpart I-Reimbursement for Railroad Work;
- Title 48 C.F.R., Part 31 -Contract Cost Principles and Procedures; and
- Title 48 C.F.R., Part 9904.405 - Cost Accounting Standards, Accounting for Unallowable Costs.

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**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:

- 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.

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**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, including supporting documentation, continue to meet the visibility rule set forth in 48 C.F.R. 9904.405.50,<sup>1</sup> which requires transparent and readily understandable records and procedures to deem expense allowability. Based on our review of CSXT's proposal, **we recommend** the Department's Freight and Multimodal Operations Office review and approve CSXT's 2020 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 4.3% during the fiscal year 2020. See **Table 1**. Some of the major contributors to the rate decrease are costs associated with:

- Higher collective bargaining agreement cost during 2020, which increased by \$29 million due to minor increases across various accounts and that are related to recently renegotiated collective bargaining agreements.
- Lower department support costs during 2020, which decreased by \$72 million. This is due to a decrease in claimed costs.

**Table 1:** Engineering Rate Variance Analysis

<b>Engineering Cost Pools</b>	<b>2020 Submitted Rate</b>	<b>2019 Audited Rate</b>	<b>Rate Change 2020 vs. 2019</b>
Collective Bargaining Agreement	20.1%	13.2%	6.9%
Department Support Costs	9.1%	25.0%	-15.9%
Fringe	35.5%	33.8%	1.7%
Payroll Taxes	24.6%	25.1%	-0.5%
Project Management	23.5%	22.3%	1.2%
Small Tools, Safety & Supplies	3.0%	3.0%	0.0%
Training	0.1%	0.2%	-0.1%
Vehicle & Equipment	37.2%	34.8%	2.4%
<b>Engineering Subtotal</b>	<b>153.1%</b>	<b>157.4%</b>	<b>-4.3%</b>

**Source:** CSXT Indirect Cost Rates Reporting Packages for the fiscal years ending December 31, 2020, and December 31, 2019 (2020 Gov't OH Rate Variance).

<sup>1</sup> Incorporated into the Federal Acquisition Regulation by reference at Title 48 C.F.R., Part 31.201-6(c).

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***Year-over-Year Variance on the Transportation Craft***

The Transportation craft had an overall rate decrease of 10.6% during the fiscal year 2020. See **Table 2**. One of the major contributors to the rate decrease are costs associated with:

- Lower fringe during 2020, which decreased by \$76 million, which is consistent with decreases in headcount and continued goals to reduce costs.

**Table 2:** Transportation Rate Variance Analysis

<b>Transportation Cost Pools</b>	<b>2020 Submitted Rate</b>	<b>2019 Audited Rate</b>	<b>Rate Change 2020 vs. 2019</b>
Collective Bargaining Agreement	19.1%	20.6%	-1.5%
Department Support Costs	0.0%	0.0%	0.0%
Fringe	41.2%	50.2%	-9.0%
Payroll Taxes	30.2%	31.3%	-1.1%
Project Management	19.8%	18.6%	1.2%
Small Tools, Safety & Supplies	0.0%	0.0%	0.0%
Training	1.7%	1.9%	-0.2%
<b>Transportation Subtotal</b>	<b>112.0%</b>	<b>122.6%</b>	<b>-10.6%</b>

**Source:** CSXT Indirect Cost Rates Reporting Packages for the fiscal years ending December 31, 2020, and December 31, 2019 (2020 Gov't OH Rate Variance)

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**APPENDIX A – Purpose, Scope, Methodology**

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

- fiscal year 2020 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 2020 indirect rates submitted by CSXT and associated records and supporting documentation, including Ernst & Young 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;
- reviewing CSXT's procedures and rate preparation checklists;
- identifying and reviewing account classification differences between 2019 and 2020;
- reperforming export of accounting data from system;
- recompiling data and reperforming rate calculations;
- performing comparative analysis on 2019 and 2020 rate data;
- reviewing changes in the adjustment structure for the 2020 rates;
- interviewing key management staff and reviewing selected workpapers prepared internally by CSXT; and
- reviewing EY's audit plan and selected workpapers

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**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
<b>Engineering Craft Direct Labor</b>	\$ 226,598,847	\$ 203,432,646	\$ -	\$ -	\$ (27,237,950)	\$ 402,793,543	100.0%
<b>Engineering Cost Pools</b>							
Collective Bargaining Agreement	56,772,233	31,136,679	(1,816,856)	-	(4,950,264)	81,141,792	20.1%
Department Support Costs	51,894,896	30,561,774	(378,895)	(29,774,350)	(15,845,067)	36,458,358	9.1%
Fringe	77,604,038	69,376,234	-	(2,079,149)	(2,060,252)	142,840,931	35.5%
Payroll Taxes	47,808,756	48,418,394	-	-	2,996,438	99,223,588	24.6%
Project Management	45,331,213	34,752,073	-	-	14,459,120	94,542,406	23.5%
Small Tools, Safety & Supplies	12,535,502	5,026,950	(24,415)	(3,927,854)	(1,439,236)	12,170,947	3.0%
Training	403,624	9,106	-	-	(1,761)	410,969	0.1%
Vehicle and Equipment	78,843,747	67,632,880	(57,126)	(1,558,586)	5,168,514	150,029,429	37.2%
<b>Subtotal Indirect Costs</b>	<b>\$ 371,194,009</b>	<b>\$ 286,914,150</b>	<b>\$ (2,277,292)</b>	<b>\$ (37,339,939)</b>	<b>\$ (1,672,508)</b>	<b>\$ 616,818,420</b>	<b>153.1%</b>
<b>Transportation Craft Direct Labor</b>	<b>\$ 507,410,470</b>	<b>\$ 2,909,773</b>	<b>\$ -</b>	<b>\$ (1,317,789)</b>	<b>\$ (803,801)</b>	<b>\$ 508,198,653</b>	<b>100.0%</b>
<b>Transportation Cost Pools</b>							
Collective Bargaining Agreement	110,555,027	30,394	(1,346,448)	(30,639)	(12,091,879)	97,116,455	19.1%
Department Support Costs	613,082,527	-	-	(613,082,527)	-	-	0.0%
Fringe	222,135,210	706,997	-	(10,523,883)	(2,772,822)	209,545,502	41.2%
Payroll Taxes	148,462,945	505,274	-	-	4,615,247	153,583,466	30.2%
Project Management	103,665,890	304,225	-	(17,442,051)	14,049,831	100,577,895	19.8%
Small Tools, Safety & Supplies	14,991,468	-	-	(14,991,468)	-	-	0.0%
Training	8,751,397	3,164	-	-	(276)	8,754,305	1.7%
<b>Subtotal Indirect Costs</b>	<b>\$ 1,221,644,464</b>	<b>\$ 1,550,074</b>	<b>\$ (1,346,448)</b>	<b>\$ (656,070,568)</b>	<b>\$ 3,800,101</b>	<b>\$ 569,577,623</b>	<b>112.0%</b>
<b>General Office Direct Labor</b>	<b>\$ 899,083,004</b>	<b>\$ 207,921,090</b>	<b>\$ -</b>	<b>\$ (1,317,789)</b>	<b>\$ (26,230,203)</b>	<b>\$ 1,079,456,102</b>	<b>100.0%</b>
<b>General Office Cost Pools</b>							
Fixed Costs	1,351,446,330	25,586,117	(80)	(942,977,254)	(17,140,419)	416,914,694	38.6%
General and Administration	1,344,874,588	12,287,618	(77,453,319)	(1,039,129,141)	(70,952,954)	169,626,792	15.7%
<b>Subtotal Indirect Costs</b>	<b>\$ 2,696,320,918</b>	<b>\$ 37,873,735</b>	<b>\$ (77,453,399)</b>	<b>\$ (1,982,106,395)</b>	<b>\$ (88,093,373)</b>	<b>\$ 586,541,486</b>	<b>54.3%</b>
<b>Total Indirect Costs (Note 4)</b>	<b>\$ 4,289,159,391</b>	<b>\$ 326,337,959</b>	<b>\$ (81,077,139)</b>	<b>\$ (2,675,516,902)</b>	<b>\$ (85,965,780)</b>	<b>\$ 1,772,937,529</b>	
<b>Component</b>	<b>Engineering</b>		<b>Transportation</b>				
Craft rates	153.1%		112.0%				
General Office rate	54.3%		54.3%				
Labor Additive - Force Account Insurance	16.0%		16.0%				
<b>Total Labor-Based Rates by Craft</b>	<b>223.4%</b>		<b>182.3%</b>				
<b>Additional Rates</b>							
Standard Additive - Materials Handling	5.0%		5.0%				
See accompanying Notes to Schedule							

Source: CSX Transportation Indirect Cost Rates Reporting Package for the fiscal year ending December 31, 2020

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APPENDIX C – Affected Entity Response



September 20, 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. 21I-010 (CSXT 2020 Fringe/Indirect Rate) received on September 15, 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 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 "A. Williams", is written over the typed name.

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

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**APPENDIX D – Management Response**

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On October 12, 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, including supporting documentation, continue to meet the visibility rule set forth in Title 48, Part 9904, Code of Federal Regulations-Cost Accounting Standards, Section 405-50-Techniques for application, which requires adequate cost identification to deem expense allowability.

**Recommendation:** We recommend the Department’s Freight and Multimodal Operations Office review and approve CSXT’s 2020 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.

**Corrective Action:**

**Estimated Completion Date:**

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**DISTRIBUTION**

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**Responsible Manager:**

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Rickey Fitzgerald, Manager, Freight and Multimodal Operations  
Robert Stapleton, Rail Operations Administrator, Freight, Logistics &  
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Linsey Funston, Manager Government Compliance, CSX Transportation, Inc.  
Sean Craig, Assistant General Counsel, CSX Transportation, Inc.

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**PROJECT TEAM**

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Engagement was conducted by:  
Mervat Bebawy, Auditor-in-Charge

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

Approved by:  
Kristofer B. Sullivan, Inspector General

**STATEMENT OF ACCORDANCE**

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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.