



Florida Department of **TRANSPORTATION**

Office of Inspector General **Kristofer B. Sullivan, Inspector General**

Audit Report No. 22I-002
Florida East Coast Railway 2020 Indirect Rates

DocuSigned by:
Kristofer B. Sullivan
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April 1, 2022

What We Did

The Florida Department of Transportation's (Department) Office of Inspector General reviewed the Florida East Coast Railway's (FEC) labor additive, material handling and supplies, and equipment (indirect) rates for calendar year 2020, to determine whether they are reasonable, based on allocable and allowable costs, and supported by transparent and understandable records.

What We Found

We determined that the indirect rates submitted by FEC for use in billing railroad highway projects for all Groups, 2, 3, and 4, are reasonable, allowable, and adequately supported, and supporting records and procedures are transparent and readily understandable.

What We Recommend

We recommend the Department's Freight and Rail Office review and approve FEC'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

The Florida East Coast Railway (FEC) is a Class II regional railroad that owns the 351-mile mainline track in Florida from Jacksonville to Miami. It is the exclusive rail provider for Port Miami, Port Everglades, and Port of Palm Beach. FEC is a wholly owned subsidiary of Grupo México Transportes (GMXT), a Class I railroad in Mexico.

FEC connects to the national railway system in Jacksonville, allowing it to provide rail service in and out of Georgia, Tennessee, South Carolina, and North Carolina, into and out of Florida's east coast. Based in Jacksonville, FL, FEC provides end-to-end intermodal and carload solutions to customers.

Criteria

The following regulations authorize the Florida Department of Transportation (Department) to pay labor surcharge and indirect cost rates, define allowable costs for purposes of inclusion in the rates, and set minimum standards for calculation methods and supporting records:

- Title 23, Part 140, Code of Federal Regulations (C.F.R.), Subpart I- Reimbursement for Railroad Work, Subsection 908(e)-Materials and Supplies;
- 23 C.F.R.140.910(a)-Equipment; and
- 23 C.F.R.140.906(b)(2)(ii)-Labor Costs.

Rate Utilization

FEC uses its indirect rates to bill for certain overhead costs related to rail/highway safety projects. Indirect rates are approved by the Department's Freight and Rail Office (FRO) and the Federal Highway Administration (FHWA), and applied as follows:

- For its hourly in-house labor charges, to recover costs associated with workman's compensation, public liability, and property damage charged at the flat fee of 8 percent of direct labor costs in lieu of actual costs, per 23 C.F.R. 140.906(b)(2)(ii).
- Employee benefits and the employer-paid portion of payroll taxes. These components make up the balance of the total rate, which ranges between 56 and 82 percent, during the years 2017 to 2020.
- As an additional material handling charge of 5 percent of the amounts billed for material and supplies issued from company stores and material yards in lieu of actual costs, per 23 C.F.R. 140.908(e).
- As the industry rate for equipment costs based on the "Blue Book for Railroad Equipment," per 23 C.F.R. 140.910(a).

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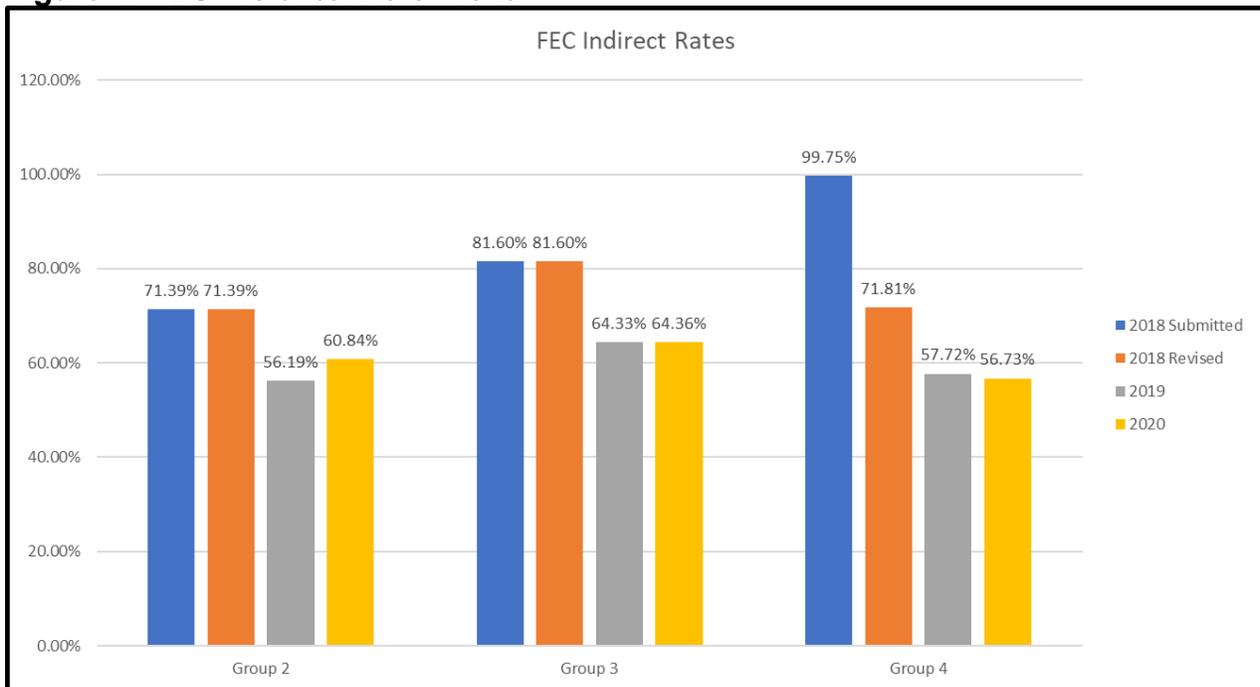
RESULTS OF REVIEW

To assess reasonableness, allocability, allowability, transparency, and understandability of the indirect rates submission packet, we evaluated the costs associated with the rates (Appendix B) and compared current to prior year's submission (Appendix C).

We determined that the indirect rates submitted by FEC for use in billing railroad highway projects for Groups, 2, 3, and 4, are reasonable, allowable, and adequately supported, and supporting records and procedures are transparent and readily understandable, based on the supporting documentation provided by FEC and the applicable criteria.

The indirect rates for 2020 are slightly higher for Groups 2 and 3 than 2019's rates. The indirect rate for Group 4 is slightly lower. See **Figure 1**.

Figure 1: FEC Historical Rate Trend¹



Source: The OIG created this table from data submitted by FEC.

¹ FEC requested a revision of their 2018 submitted rates, which the FRO approved on February 1, 2021. The revision decreased Group 4. Groups 2 and 3 remained the same.

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As shown in **Figure 2**, all groups experienced an increase in health and welfare costs.

Figure 2: 2019-2020 Rate Comparison²

Labor Classifications	Group 2			Group 3			Group 4		
	2019	2020	Change	2019	2020	Change	2019	2020	Change
Sick Pay	0.13%	0.08%	0.0%	0.16%	0.15%	0.0%	1.27%	0.94%	-0.3%
Holiday & Vacation Pay	10.25%	8.09%	-2.2%	10.51%	7.68%	-2.8%	4.56%	4.09%	-0.5%
Other Paid Absences	1.54%	1.97%	0.4%	8.78%	7.85%	-0.9%	0.91%	0.84%	-0.1%
Bonus	0.99%	0.35%	-0.6%	0.93%	0.32%	-0.6%	8.69%	4.44%	-4.3%
Payroll Taxes	23.30%	22.49%	-0.8%	24.84%	23.61%	-1.2%	23.81%	22.46%	-1.4%
Health and Welfare	11.98%	19.85%	7.9%	11.12%	16.75%	5.6%	10.48%	15.97%	5.5%
Workman's Compensation	8.00%	8.00%	0.0%	8.00%	8.00%	0.0%	8.00%	8.00%	0.0%
Total	56.19%	60.84%	4.6%	64.33%	64.36%	0.0%	57.72%	56.73%	-1.0%

Source: The OIG created this table from data submitted by FEC.

We recommend the Department's FRO review and approve FEC's 2020 indirect cost rates for use in billing costs for railroad-highway projects and communicate this decision to the FHWA.

² The sum of the rates in this chart may have a slight difference from the total due to rounding in the content.

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APPENDIX A – Purpose, Scope, and Methodology

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

- calendar year 2020 indirect rates are reasonable, allocable, and based on allowable costs; and
- supported by transparent and understandable records.

The **scope** of this audit consisted of the proposed 2020 indirect rates submitted by FEC and associated records and supporting documentation.

The **methodology** included:

- reviewing relevant regulations:
 - 23 C.F.R. 140.908(e)-Materials and Supplies
 - 23 C.F.R. 140.910(a)-Equipment
 - 23 C.F.R. 140.906(b)(2)(ii)-Labor Costs
- reviewing FEC's rate preparation procedures;
- identifying and reviewing account classification differences between 2019 and 2020;
- re-performing rate calculations;
- performing comparative analysis on 2019 and 2020 rate data; and
- interviewing key management staff and reviewing selected workpapers prepared internally by FEC.

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APPENDIX B – 2020 Labor Additive Surcharge Rates³

Group II - Maintenance of Roadway, Equipment, and Signal Employees

Sick Pay	0.08%
Holiday & Vacation Pay	8.09%
Other Paid Absences	1.97%
Bonus	0.35%
Payroll Taxes	22.49%
Health and Welfare	19.85%
Workman's Compensation (W/C), Public Liability and Property Damage Insurance	8.00%
Total	<u>60.84%</u>

Group III - Transportation Employees

Sick Pay	0.15%
Holiday & Vacation Pay	7.68%
Other Paid Absences	7.85%
Bonus	0.32%
Payroll Taxes	23.61%
Health and Welfare	16.75%
Workman's Compensation (W/C), Public Liability and Property Damage Insurance	8.00%
Total	<u>64.36%</u>

Group IV - General and Administrative Employees

Sick Pay	0.94%
Holiday & Vacation Pay	4.09%
Other Paid Absences	0.84%
Bonus	4.44%
Payroll Taxes	22.46%
Health and Welfare	15.97%
Workman's Compensation (W/C), Public Liability and Property Damage Insurance	8.00%
Total	<u>56.73%</u>

Source: OIG compiled this table utilizing data provided by FEC.

³ The sum of the rates in this chart may have a slight difference from the total due to rounding in the content.

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APPENDIX C – Comparison of 2019 and 2020 Rates⁴

Group II - Maintenance of Roadway, Equipment, and Signal Employees	2019 Submitted	2020 Submitted
Sick Pay	0.13%	0.08%
Holiday & Vacation Pay	10.25%	8.09%
Other Paid Absences	1.54%	1.97%
Bonus	0.99%	0.35%
Payroll Taxes	23.30%	22.49%
Health and Welfare	11.98%	19.85%
W/C, Public Liability & Property Damage Insurance	8.00%	8.00%
Total	56.19%	60.84%

Group III - Transportation Employees	2019 Submitted	2020 Submitted
Sick Pay	0.16%	0.15%
Holiday & Vacation Pay	10.51%	7.68%
Other Paid Absences	8.78%	7.85%
Bonus	0.93%	0.32%
Payroll Taxes	24.84%	23.61%
Health and Welfare	11.12%	16.75%
W/C, Public Liability & Property Damage Insurance	8.00%	8.00%
Total	64.33%	64.36%

Group IV - General and Administrative Employees	2019 Submitted	2020 Submitted
Sick Pay	1.27%	0.94%
Holiday & Vacation Pay	4.56%	4.09%
Other Paid Absences	0.91%	0.84%
Bonus	8.69%	4.44%
Payroll Taxes	23.81%	22.46%
Health and Welfare	10.48%	15.97%
W/C, Public Liability & Property Damage Insurance	8.00%	8.00%
Total	57.72%	56.73%

Source: OIG compiled this table utilizing data provided by FEC.

⁴ The sum of the rates in this chart may have a slight difference from the total due to rounding in the content.

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APPENDIX D – Affected Entity Response



February 26, 2022
Florida Department of Transportation
Office of Inspector General

Mr. Rickey Fitzgerald

Cc: Danielle Cunningham
Robert Stapleton
Tim Crellin
Andrea Sistrunk

Re: Florida East Coast Railway 2020 Indirect Rates

This letter is with regard to the 2020 Indirect Rates. Per our exit conference, Florida East Coast Railway, LLC agrees with Florida Department Of Transportation that the indirect rates submitted by us for use in billing railroad highway projects for all Groups, 2, 3, and 4, are reasonable, allowable, and adequately supported.

Thank you for your quick turnaround

Yours very truly,

A handwritten signature in blue ink, appearing to read 'Dani Brandenburg', written over a horizontal dashed line.

Dani Brandenburg
AVP, Accounting & Finance

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APPENDIX E – Management Response

On March 8, 2022, the OIG received the response from Rickey Fitzgerald, Manager of the Department's Freight and Rail Office:

Finding 1 – Reasonable, Allowable, and Adequately Supported Indirect Rates

Finding: We determined that the indirect rates submitted by FEC for use in billing railroad-highway projects for all Groups, 2, 3, and 4, are reasonable, allowable, and adequately supported, and supporting records and procedures are transparent and readily understandable, based on the supporting documentation provided by FEC and the applicable criteria.

Recommendation: We recommend the Freight and Rail Office (FRO) review and consider FEC's 2020 rate packet for approval.

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

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DISTRIBUTION

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Rickey Fitzgerald, Manager, Freight and Rail Office

Robert Stapleton, Rail Operations Administrator, Freight and Rail Office

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Robert Bullock, Assistant Vice President of Human Resources, Florida East Coast Railway

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PROJECT TEAM

Engagement was conducted by:
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Under the supervision of:
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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.