



# 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. 23I-001  
CSXT 2021 Indirect Rate

December 15, 2022

## What We Did

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The Florida Department of Transportation's (Department) Office of Inspector General (OIG) audited the 2021 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 reviewed the Indirect Cost Rates Reporting Package 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 and are supported by transparent and understandable records. **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 Rail Office review and approve CSXT's 2021 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. As of December 2021, CSXT owned and operated 19,500 route miles of track in 23 states east of the Mississippi River, the District of Columbia, and two Canadian provinces. Additionally, CSXT employed approximately 17,190 individuals which included both management and 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.

### **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.)-Railroads, Subpart B-Railroad Highway Projects;
- 23 C.F.R. 140-Reimbursement, Subpart I-Reimbursement for Railroad Work;
- 48 C.F.R. 31-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.

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**RESULTS OF REVIEW**

**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 and are supported by transparent and understandable records. **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.

We reviewed the costs associated with the rates, reviewed the Indirect Cost Rates Reporting Package (audit report) prepared by Ernst & Young, LLP (EY) and performed substantive testing as a part of our evaluation. 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 increase of 4.8% during fiscal year 2021 from fiscal year 2020 as shown in Table 1. However, the fiscal year 2021 submitted rate of 157.9% is comparable to the fiscal year 2019 approved rate of 157.4%. The major contributors to the fiscal year 2021 rate increase include:

- Department Support costs decreased by \$12 million attributable to a net decrease in claimed cost.
- Vehicle & Equipment costs increased by \$14 million primarily due to an increase in rental and fuel costs.
- Project Management costs increased by \$12 million. The increase was primarily due to an increase in management labor/bonus and health & welfare costs.

**Table 1: Engineering Rate Variance Analysis**

<b>Engineering Cost Pools</b>	<b>Approved 2019 Rate</b>	<b>Approved 2020 Rate</b>	<b>Submitted 2021 Rate</b>	<b>Rate Change 2020 to 2021</b>
Collective Bargaining Agreement	13.2%	20.1%	20.1%	0.0%
Department Support Costs	25.0%	9.1%	5.9%	-3.2%
Fringe	33.8%	35.5%	36.6%	1.1%
Payroll Taxes	25.1%	24.6%	25.3%	0.7%
Project Management	22.3%	23.5%	26.2%	2.7%
Small Tools, Safety & Supplies	3.0%	3.0%	3.2%	0.2%
Training	0.2%	0.1%	0.1%	0.0%
Vehicle & Equipment	34.8%	37.2%	40.5%	3.3%
<b>Engineering Subtotal</b>	<b>157.4%</b>	<b>153.1%</b>	<b>157.9%</b>	<b>4.8%</b>

**Source:** CSXT Indirect Cost Rates Reporting Packages for the fiscal years ending December 31, 2021, and December 31, 2020.

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

The transportation craft had an overall rate increase of 7.9% during fiscal year 2021 from fiscal year 2020, as shown in Table 2. However, the fiscal year 2021 submitted rate of 120.0% is comparable to the fiscal year 2019 approved rate of 122.6%. The major contributors to the fiscal year 2021 rate increase include:

- Fringe costs increased by \$22 million primarily due to an increase in claimed cost in vacation expenses, health & welfare costs, and personal day cost.
- Project Management increased by \$19 million primarily due to an increase in management labor/bonus and health & welfare costs.

**Table 2: Transportation Rate Variance Analysis**

<b>Transportation Cost Pools</b>	<b>Approved 2019 Rate</b>	<b>Approved 2020 Rate</b>	<b>Submitted 2021 Rate</b>	<b>Rate Change 2020 to 2021</b>
Collective Bargaining Agreement	20.6%	19.1%	18.4%	-0.7%
Fringe	50.2%	41.2%	44.7%	3.5%
Payroll Taxes	31.3%	30.2%	30.5%	0.3%
Project Management	18.6%	19.8%	23.2%	3.4%
Training	1.9%	1.7%	3.1%	1.4%
<b>Transportation Subtotal</b>	<b>122.6%</b>	<b>112.1%</b>	<b>120.0%</b>	<b>7.9%</b>

**Source:** CSXT Indirect Cost Rates Reporting Packages for the fiscal years ending December 31, 2021, and December 31, 2020.

**We recommend** the Department's Freight and Rail Office review and approve CSXT's 2021 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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**APPENDIX A – Purpose, Scope, and Methodology**

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The **purpose** of this engagement was to determine whether CSXT fiscal year 2021 indirect rates are reasonable, based on allocable and allowable costs, and supported by transparent and understandable records.

The **scope** of this audit consists of the proposed 2021 indirect rates submitted by CSXT and associated records and supporting documentation, including EY's audit report.

The **methodology** included:

- review of relevant regulations;
- review of CSXT's rate preparation procedures;
- review of account classification changes;
- review of changes in the adjustment structure;
- re-performance of rate calculations;
- performing a comparative analysis on the 2020 and 2021 rate data; and
- review of EY's audit report and selected workpapers.

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**APPENDIX B – 2021 Rate Schedule**

Component	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>	<b>\$ 232,263,149</b>	<b>\$ 198,283,977</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (25,084,817)</b>	<b>\$ 405,462,309</b>	<b>100.0%</b>
<b>Engineering Cost Pools</b>							
Collective Bargaining Agreement	67,600,951	32,551,209	(775,779)	-	(17,884,273)	81,492,108	20.1%
Department Support Costs	44,260,499	32,507,399	(442,560)	(36,972,177)	(15,235,495)	24,117,666	5.9%
Fringe	77,233,685	72,662,535	-	5,858,536	(7,550,824)	148,203,932	36.6%
Payroll Taxes	52,557,232	48,700,640	-	-	1,451,935	102,709,807	25.3%
Project Management	45,087,743	36,663,615	-	-	24,636,300	106,393,658	26.2%
Small Tools, Safety & Supplies	14,273,350	5,419,532	(496)	(6,913,690)	83,943	12,862,639	3.2%
Training	443,586	2,440	-	-	(1,065)	444,961	0.1%
Vehicle and Equipment	81,842,278	79,922,349	(46,920)	(1,968,969)	4,537,586	164,346,324	40.5%
<b>Subtotal Indirect Costs</b>	<b>\$ 383,299,324</b>	<b>\$ 308,435,779</b>	<b>\$ (1,265,755)</b>	<b>\$ (39,996,300)</b>	<b>\$ (9,901,893)</b>	<b>\$ 640,571,155</b>	<b>158.0%</b>
<b>Transportation Craft Direct Labor</b>	<b>\$ 516,421,807</b>	<b>\$ 1,150,299</b>	<b>\$ -</b>	<b>\$ (882,491)</b>	<b>\$ (94,160)</b>	<b>\$ 516,595,455</b>	<b>100.0%</b>
<b>Transportation Cost Pools</b>							
Collective Bargaining Agreement	136,374,213	1,916	(2,442,047)	(44,676)	(38,648,640)	95,240,766	18.4%
Fringe	247,364,380	573,129	-	(5,937,353)	(10,326,289)	231,073,867	44.7%
Payroll Taxes	154,904,539	366,278	-	-	2,202,806	157,473,623	30.5%
Project Management	124,114,607	169,892	-	(31,961,763)	27,656,869	119,979,605	23.2%
Training	15,985,353	61	-	-	(1,048)	15,984,366	3.1%
<b>Subtotal Indirect Costs</b>	<b>\$ 678,743,092</b>	<b>\$ 1,111,276</b>	<b>\$ (2,442,047)</b>	<b>\$ (37,943,792)</b>	<b>\$ (19,716,302)</b>	<b>\$ 619,752,227</b>	<b>120.0%</b>
<b>General Office Direct Labor</b>	<b>\$ 910,141,908</b>	<b>\$ 203,668,782</b>	<b>\$ -</b>	<b>\$ (882,491)</b>	<b>\$ (25,119,247)</b>	<b>\$ 1,087,808,952</b>	<b>100.0%</b>
<b>General Office Cost Pools</b>							
Fixed Costs	1,364,268,878	22,082,859	-	(937,058,694)	(15,772,601)	433,520,442	39.9%
General and Administration	1,075,737,115	22,674,389	(89,935,445)	(713,781,508)	(86,153,970)	208,540,581	19.2%
<b>Subtotal Indirect Costs</b>	<b>\$ 2,440,005,993</b>	<b>\$ 44,757,248</b>	<b>\$ (89,935,445)</b>	<b>\$ (1,650,840,202)</b>	<b>\$ (101,926,571)</b>	<b>\$ 642,061,023</b>	<b>59.0%</b>
<b>Total Indirect Costs (Note 4)</b>	<b>\$ 3,502,048,409</b>	<b>\$ 354,304,303</b>	<b>\$ (93,643,247)</b>	<b>\$ (1,728,780,294)</b>	<b>\$ (131,544,766)</b>	<b>\$ 1,902,384,405</b>	
<b>Component</b>	<b>Engineering</b>		<b>Transportation</b>				
Craft rates	158.0%		120.0%				
General Office rate	59.0%		59.0%				
Labor Additive - Force Account Insurance	16.0%		16.0%				
<b>Total Labor-Based Rates by Craft</b>	<b>233.0%</b>		<b>195.0%</b>				
<b>Additional Rates</b>							
Standard Additive - Materials Handling	5.0%		5.0%				

**Source:** CSX Transportation Indirect Cost Rates Reporting Package for the fiscal year ending December 31, 2021.

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APPENDIX C – Affected Entity Response



November 22, 2022

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

Dear Ms. Mobley:

We have reviewed the draft audit report No. 23I-001 (CSXT 2021 Fringe/Indirect Rate) received on November 3, 2022. 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, and
3. Approval of the rates from the Federal Highway Administration.

Sincerely,

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

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

CSX Corporation, 500 Water Street, Jacksonville, FL 32202

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**APPENDIX D – Management Response**

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On December 12, 2022, the OIG received the response from Rickey Fitzgerald, Manager of the Department’s Freight and Rail 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 and are supported by transparent and understandable records. 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 Rail Office review and approve CSXT’s 2021 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.

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**DISTRIBUTION**

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**Responsible Manager:**

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Rickey Fitzgerald, Manager, Freight and Rail Office  
Kelli Phillips, Rail Operations Administrator, Freight and Rail Office

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Leslie Williams, Sr. Manager Compliance & Analysis, 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:  
Danielle Cunningham, Auditor-In-Charge

Under the supervision of:  
Andrea Sistrunk, Senior Audit Supervisor  
Jessica Mobley, 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.