



Florida Department of TRANSPORTATION

Office of Inspector General Kristofer B. Sullivan, Inspector General

Audit Report No. 23I-014
CSX Transportation, Inc. 2022 Indirect Rate

DocuSigned by:
Kristofer B. Sullivan
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December 18, 2023

What We Did

The Florida Department of Transportation's (Department) Office of Inspector General audited the 2022 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

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.

We observed the following increases:

- 10.8 percent in the Engineering Craft rate due to:
 - Department Support claimed costs increased by \$18 million, slightly offset by increased labor.
 - Vehicle & Equipment costs increased by \$24 million primarily due to increased rental, fuel costs, and work equipment materials.

- 22.7 percent in the Transportation Craft rate due to:
 - Collective Bargaining Agreement increased by \$41 million primarily due to increased claimed cost in arbitrary pay and retention bonuses.
 - Fringe increased by \$27 million primarily due to increased health & welfare costs, match expenses, and personal/vacation days.
 - Payroll Taxes increased by \$22 million primarily due to an increase in contract tier 1 and 2 costs and management unemployment taxes.

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- Training increased by \$22 million due to a significant increase in new hire conductors.

What We Recommend

We recommend the Department's Freight and Rail Office review the category increases and consider approving CSXT's 2022 indirect cost rates used in billing costs for railroad-highway projects and communicate this decision to the Federal Highway Administration.

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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 20,000 route miles of track in 26 states east of the Mississippi River, the District of Columbia, and 2 Canadian provinces. As of December 2022, CSXT employed approximately 22,500 individuals, which included 17,100 union employees. CSXT transports a variety of freight across the network, servicing 3 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 Percent Self-Insured Additive

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 percent 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.

CSXT has opted not to bill the standard self-insurance labor additive of 8 percent and has not included the additive in the rate schedule for the fiscal year (FY) 2022 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 method and supporting records:

- 23 C.F.R. 646-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.

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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 is 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. The following subsections outline our observations of CSXT's indirect rate submission.

Year-over-Year Variance on the Engineering Craft

CSXT Engineering Craft employees provide quality maintenance to the track, train control (signals and communication) systems, and bridges and buildings in a safe, cost-effective manner. The number of Engineering Craft employees increased from 5,500 in FY 2021 to 5,600 in FY 2022, see Chart 1.

Engineering Craft positions include:

- Signal Workers (Construction and Maintenance)
- Bridge Mechanics
- Bridge Tenders
- Communications Maintainer – Technician
- Heavy Equipment Operators
- Road Electricians
- Roadway Mechanics
- Sheet Metal Workers
- Track Workers
- Welder Helpers
- Machinists

CSXT's FY 2022 Engineering Craft cost pool increased 10.8 percent from FY 2021, see Table 1.

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Table 1: Engineering Rate Variance Analysis

Engineering Cost Pools	2021 Submitted Rate	2022 Submitted Rate	Rate Change 2021 to 2022
Collective Bargaining Agreement	20.1%	21.7%	1.6%
Department Support Costs	5.9%	10.0%	4.1%
Fringe	36.6%	35.5%	-1.1%
Payroll Taxes	25.3%	26.1%	0.8%
Project Management	26.2%	26.4%	0.2%
Small Tools, Safety & Supplies	3.2%	3.7%	0.5%
Training	0.1%	0.1%	0.0%
Vehicle & Equipment	40.5%	45.2%	4.7%
Engineering Subtotal	157.9%	168.7%	10.8%

Source: CSXT Indirect Cost Rates Reporting Packages for the fiscal years ending December 31, 2022, and December 31, 2021.

The major contributors to the FY 2022 rate increase include:

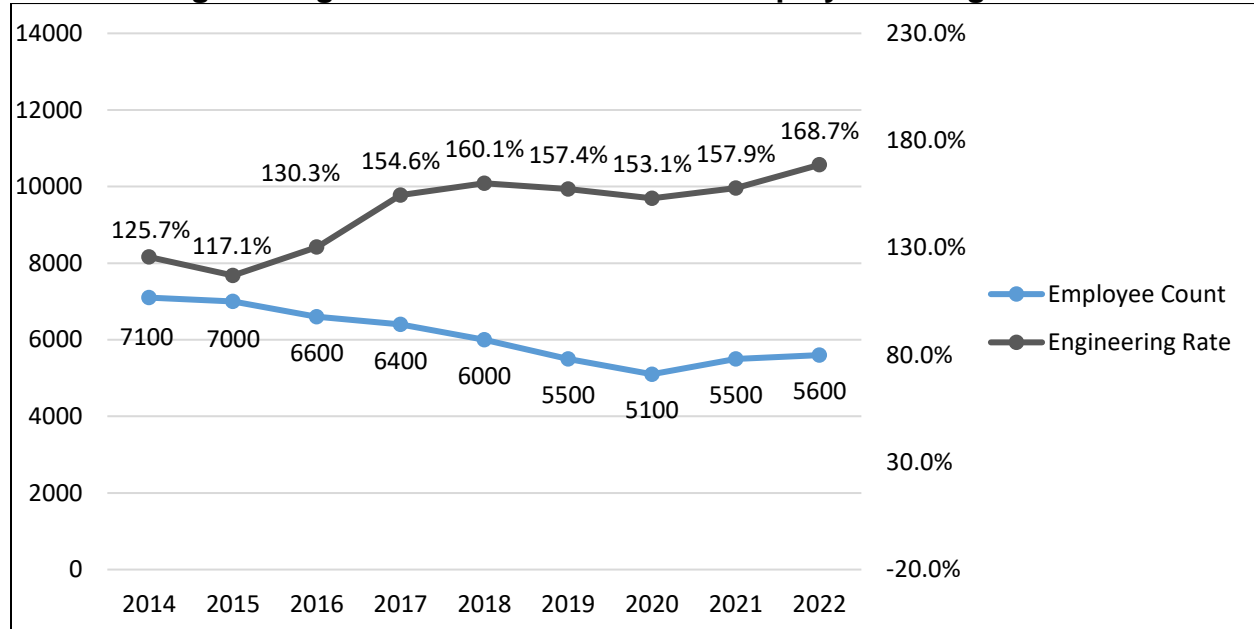
- Department Support claimed costs increased by \$18 million, slightly offset by increased labor. Claimed cost increases were due to:
 - Decrease in credits for scrap recovery of \$12 million.
 - Increase in ballast cleaning of \$5 million.
 - Increase in net positive changes of \$4 million that were not significant or notable individually.
 - Offset by a net decrease in rail materials of -\$3 million.
- Vehicle & Equipment costs increased by \$24 million primarily due to:
 - Increase in fuel costs of \$9 million.
 - Increase in work equipment material costs of \$7 million.
 - Increase in procard¹ expenses for vehicle operations of \$6 million.
 - Increase of other net impacts of cost changes that were not significant or notable individually of \$2 million.

Chart 1 illustrates the historical rate and employee changes in the Engineering Craft from fiscal year 2014 through 2022.

¹ A form of company charge card that allows goods and services to be procured.

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Chart 1: Engineering Craft Historical Rate and Employee Changes FYs 2014-2022



Source: Chart created by auditor from CSXT Indirect Rate Reporting Packages.

Year-over-Year Variance on the Transportation Craft

CSXT Transportation Craft employees are responsible for the safe and efficient operation of trains and the movement of customer freight from one destination to another. The number of Transportation Craft employees increased from 7,400 in FY 2021 to 8,100 in FY 2022, see Chart 2.

Transportation Craft positions include:

- Freight Conductors
- Locomotive Engineers
- Train Dispatchers
- Yardmasters

CSXT's FY 2022 Transportation Craft cost pool increased 22.7 percent from FY 2021, see Table 2.

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Table 2: Transportation Rate Variance Analysis

Transportation Cost Pools	2021 Submitted Rate	2022 Submitted Rate	Rate Change 2021 to 2022
Collective Bargaining Agreement	18.4%	26.5%	8.1%
Fringe	44.7%	50.0%	5.3%
Payroll Taxes	30.5%	34.7%	4.2%
Project Management	23.2%	24.0%	0.8%
Training	3.1%	7.4%	4.3%
Transportation Subtotal	120.0%	142.6%	22.7%

Source: CSXT Indirect Cost Rates Reporting Packages for the fiscal years ending December 31, 2022, and December 31, 2021.

The major contributors to the fiscal year 2022 rate increase include:

- Collective Bargaining Agreement increased by \$41 million primarily due to:
 - Increase in retention bonuses \$6 million.
 - Increase in arbitrary pay classification of \$35 million primarily driven by:
 - Increase in coupling/helping² crew \$9 million.
 - Increase in extraboard³ \$7 million.
 - Increase in held away from home⁴ \$7 million.
 - Increase in deadheading⁵ \$3 million.
 - Increase in miscellaneous claims for yard/road \$3 million.
 - Increase in travel meals \$2 million.
 - Increase in others none of which are individually significant \$4 million.
- Fringe increased by \$27 million primarily due to:
 - Increase in health & welfare costs of \$22 million.
 - Increase in 401k match expense of \$3 million.
 - Increase in personal/vacation days of \$2 million.

² A coupler is a device located at both ends of all cars in a standard location to provide a means for connecting one rail car to another which is known as coupling. Helping crew is assisting other trains with building trains or the movement of a train.

³ Engineers and trainmen who remain available for extra jobs or vacancies to ensure an ample supply of manpower and are compensated for such availability.

⁴ Employees who are tied up at their away from home terminal to take rest. Employees are paid for a time after a set amount of hours, which begins at the time they were relieved from duty at the away from home terminal and stops when they go on duty for their next trip.

⁵ Engineers and trainmen going from one terminal to another without performing service for which they were paid the regular rate as though they had worked. This can be by riding on train with crew, taxi, personal vehicle, or company vehicle.

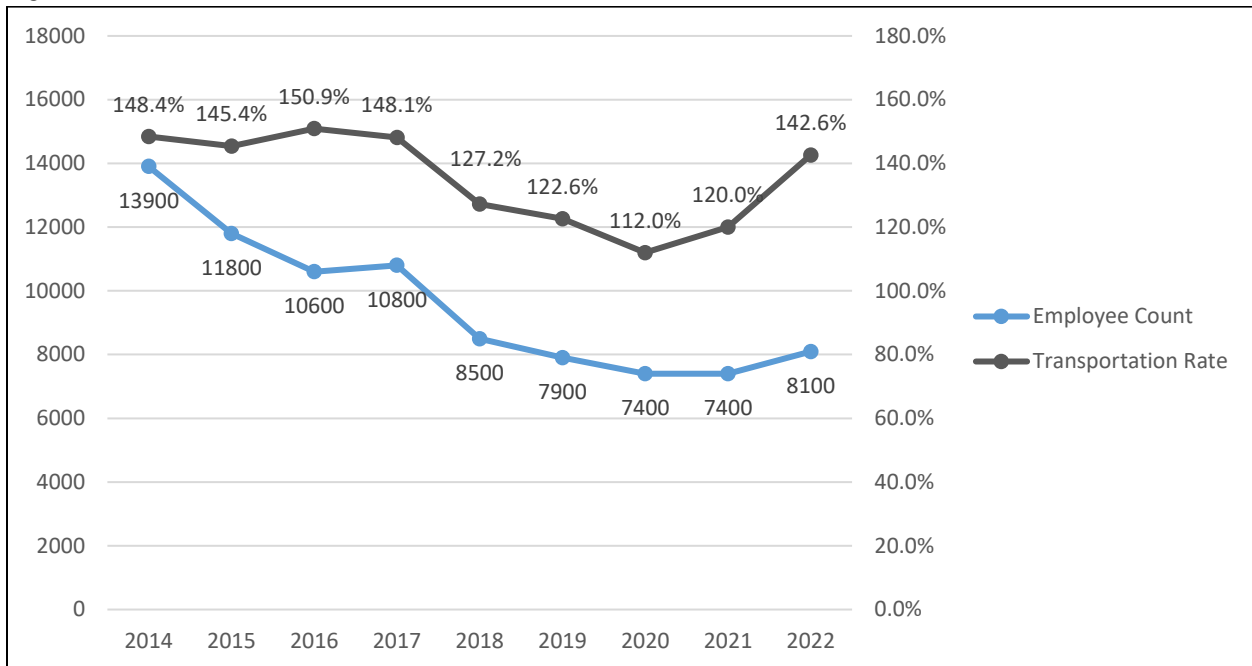
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- Payroll Taxes increased by \$22 million primarily due to:
 - Increase in contract tier 1 and 2 costs of \$14 million.
 - Increase in management unemployment taxes due to rate increases from 3.72 percent to 7.85 percent of \$8 million.

- Training increased by \$22 million due to a significant increase in new hire conductors.

Chart 2 illustrates the historical rate and employee changes in the Transportation Craft from fiscal year 2014 through 2022.

Chart 2: Transportation Craft Historical Rate and Employee Changes FYs 2014-2022



Source: Chart created by auditor from CSXT Indirect Rate Reporting Packages.

We recommend the Department’s Freight and Rail Office review the category increases and consider approving CSXT’s 2022 indirect cost rates used 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

The **purpose** of this engagement was to determine whether CSXT fiscal year 2022 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 fiscal year 2022 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 of the fiscal year 2021 and 2022 rate data;
and
- review of EY's audit report and selected workpapers.

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APPENDIX B – CSXT 2022 Indirect Rate Schedule

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	\$ 236,330,984	\$ 209,535,332	\$ -	\$ -	\$ (29,223,755)	\$ 416,642,561	100.0%
Engineering Cost Pools							
Collective Bargaining Agreement	79,987,294	36,421,670	(883,893)	-	(25,170,873)	90,354,198	21.7%
Department Support Costs	108,665,235	33,377,993	(847,004)	(66,315,867)	(33,152,513)	41,727,844	10.0%
Fringe	83,758,094	75,720,177	-	(2,310,043)	(9,273,927)	147,894,301	35.5%
Payroll Taxes	55,595,965	53,347,260	-	-	(360,683)	108,582,542	26.1%
Project Management	48,377,160	39,088,710	-	-	22,532,368	109,998,238	26.4%
Small Tools, Safety & Supplies	19,244,049	7,053,619	-	(13,333,118)	2,464,421	15,428,971	3.7%
Training	290,632	2,403	-	(2,379)	(3,163)	287,493	0.1%
Vehicle and Equipment	94,673,173	90,240,621	(154,594)	(1,993,465)	5,733,733	188,499,468	45.2%
Subtotal Indirect Costs	\$ 490,591,602	\$ 335,252,453	\$ (1,885,491)	\$ (83,954,872)	\$ (37,230,637)	\$ 702,773,055	168.7%
Transportation Craft Direct Labor	\$ 516,318,130	\$ 1,378,507	\$ -	\$ (955,376)	\$ (523,281)	\$ 516,217,980	100.0%
Transportation Cost Pools							
Collective Bargaining Agreement	194,267,052	5,479	(1,301,966)	(21,485)	(56,257,257)	136,691,823	26.5%
Fringe	284,163,824	376,091	-	(7,107,944)	(19,477,698)	257,954,273	50.0%
Payroll Taxes	179,707,891	276,939	-	-	(576,510)	179,408,320	34.7%
Project Management	104,096,268	62,243	-	(5,144,319)	24,996,049	124,010,241	24.0%
Training	38,314,578	43	-	-	(19,148)	38,295,473	7.4%
Subtotal Indirect Costs	\$ 800,549,613	\$ 720,795	\$ (1,301,966)	\$ (12,273,748)	\$ (51,334,564)	\$ 736,360,130	142.6%
General Office Direct Labor	\$ 921,389,360	\$ 215,856,008	\$ -	\$ (2,955,376)	\$ (30,949,788)	\$ 1,103,340,204	100.0%
General Office Cost Pools							
Fixed Costs	1,404,561,146	23,022,608	-	(967,911,339)	(17,205,896)	442,466,519	40.1%
General and Administration	1,309,674,877	18,061,620	(110,741,759)	(880,369,391)	(103,385,376)	233,239,971	21.1%
Subtotal Indirect Costs	\$ 2,714,236,023	\$ 41,084,228	\$ (110,741,759)	\$ (1,848,280,730)	\$ (120,591,272)	\$ 675,706,490	61.2%
Total Indirect Costs (Note 4)	\$ 4,005,377,238	\$ 377,057,476	\$ (113,929,216)	\$ (1,944,509,350)	\$ (209,156,473)	\$ 2,114,839,675	
Component	Engineering		Transportation				
Craft rates	168.7%		142.6%				
General Office rate	61.2%		61.2%				
Labor Additive - Force Account Insurance	16.0%		16.0%				
Total Labor-Based Rates by Craft	245.9%		219.8%				
Additional Rates							
Standard Additive - Materials Handling	5.0%		5.0%				

Source: CSX Transportation Indirect Cost Rates Reporting Package for the fiscal year ending December 31, 2022

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APPENDIX C – Affected Entity Response



September 28, 2023

Angela C. Williams
Vice President and Chief Accounting Officer
500 Water Street
Jacksonville, FL 32202

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-014 (CSXT 2022 Fringe/Indirect Rate) received on September 21, 2023. 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,

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

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APPENDIX D – Management Response

On November 18, 2023, the OIG received the response from Gabrielle Matthews, Rail and Transit Manager.

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.

We observed the following increases:

- 10.8 percent in the Engineering Craft rate due to:
 - Department Support claimed costs increased by \$18 million, slightly offset by increased labor.
 - Vehicle & Equipment costs increased by \$24 million primarily due to increased rental, fuel costs, and work equipment materials.

- 22.7 percent in the Transportation Craft rate due to:
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 - Fringe increased by \$27 million primarily due to increased health & welfare costs, match expenses, and personal/vacation days.
 - Payroll Taxes increased by \$22 million primarily due to an increase in contract tire and management unemployment taxes.
 - Training increased by \$22 million due to a significant increase in new hire conductors.

Recommendation: We recommend the Department's Freight and Rail Office review the category increases and consider approving CSXT's 2022 indirect cost rates used 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: None

Estimated Completion Date: N/A

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Gabrielle Matthews, Rail and Transit Manager
Kelli Phillips, Rail Operations Administrator

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Sean Craig, Assistant General Counsel, CSX Transportation, Inc.
Casey Waddill, Compliance Analyst, CSX Transportation, Inc.

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PROJECT TEAM

Engagement was conducted by:
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Under the supervision of:
Barbara Brown-Walton, 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

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.