



Florida Department of TRANSPORTATION

Office of Inspector General Kristofer B. Sullivan, Inspector General

Audit Report No. 25I-001
Florida East Coast Railway 2023 Indirect Rates

DocuSigned by:
Kristofer B. Sullivan
66AAC6E338F64F4...
May 15, 2025

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 the calendar year (CY) 2023, to determine whether they are reasonable, based on allocable and allowable costs, and supported by transparent and understandable records.

What We Found

We determined the CY 2023 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.

We also determined FEC'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

We recommend the Department's Freight and Rail Office review and consider approving FEC's CY 2023 indirect cost rates for use in billing costs for railroad-highway projects and communicate this decision to the Federal Highway Administration.

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

TABLE OF CONTENTS

BACKGROUND AND INTRODUCTION	3
RESULTS OF REVIEW	5
APPENDIX A – Purpose, Scope, and Methodology	9
APPENDIX B – 2023 Labor Additive Surcharge Rates	10
APPENDIX C – Comparison of CY 2022 and 2023 Indirect Rates	11
APPENDIX D – Affected Entity Response	12
APPENDIX E – Management Response	13
DISTRIBUTION	14
PROJECT TEAM	15
STATEMENT OF ACCORDANCE	15

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

BACKGROUND AND INTRODUCTION

The Florida East Coast Railway (FEC), based in Jacksonville, FL, is a Class II regional railroad that owns the 351 mile mainline track from Jacksonville to Miami. It is the exclusive rail provider for Port Miami, Port Everglades, and the 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, North Carolina, and Florida's east coast. 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 906(b)(2)(ii)-Labor surcharges;
- 23 C.F.R. 140.908(e)-Handling costs;
- 23 C.F.R. 140.910(a)-Company owned equipment;
- 48 C.F.R. 9904.405-Cost Accounting Standards, Accounting for Unallowable Costs; and
- Title 41, United States Code (U.S.C.), Section 4304-Specific costs not allowable, Subsection (a)(16) Specific 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 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 instead 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 2023, see **Figure 1**.
- As an additional material handling charge of 5 percent of the amounts billed for material and supplies issued from company stores and material yards instead of actual costs, per 23 C.F.R. 140.908(e).

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

- As the industry rate for equipment costs is based on the “Blue Book for Railroad Equipment,” per 23 C.F.R. 140.910(a).
- FEC’s accounting procedures, including supporting documentation that continues to meet the visibility rule outlined in 48 C.F.R. 9904.405-50, which requires adequate cost identification to deem expense allowability.

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

RESULTS OF REVIEW

We determined the calendar year (CY)¹ 2023 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.

We also determined FEC'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.

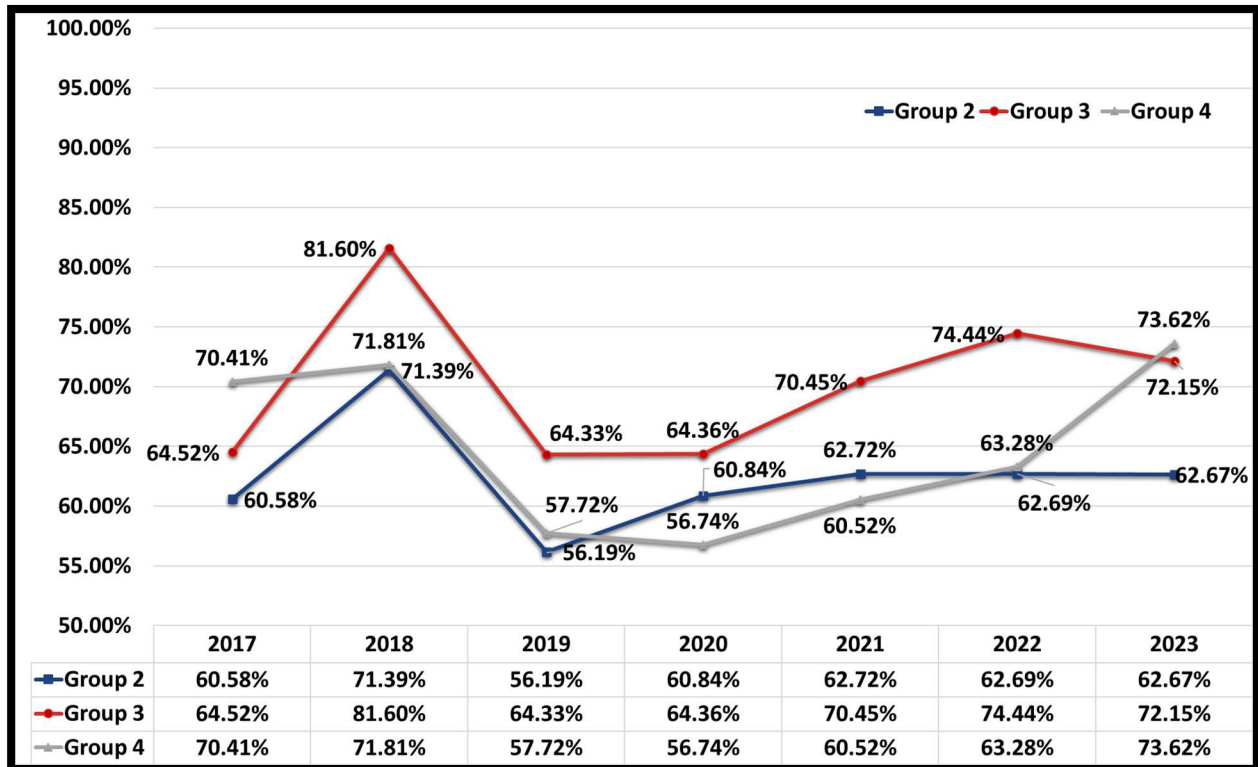
We reviewed FEC's 2023 FDOT Indirect Cost Rates Reporting Packet prepared by the FEC Payroll Manager and noted there were no changes in FEC's administrative functionality and rate methodology from the prior year.

We performed substantive testing to assess the reasonableness, allowability, transparency, and understandability of the indirect rates submission. We evaluated the costs associated with the rates (**Appendix B**) and compared the current year to the prior year's submission (**Appendix C**). See **Figure 1** and **Table 1** for illustrations regarding the rate changes.

¹ FEC uses the calendar year (CY) as its fiscal year, this means the 2017 CY was evenly split between old and new ownership.

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

Figure 1 – FEC Historical Indirect Rates from 2017 to 2023²



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

We inquired about the following changes in Groups 3 and 4 with FEC, and the explanations were provided below:

Group 3

The total variance in CY 2023 for Group 3 was a 2.29 percent decrease from the CY 2022 Group 3 total. This variance stems primarily from a 3.21 percent decrease in Other Paid Absences, which FEC explained as a total decrease in the amount of training this employee group received.

Group 4

The total variance in CY 2023 for Group 4 was a 10.35 percent increase from the CY 2022 Group 4 total. The two primary reasons for this variance were:

- Other Paid Absences increased by 1.68 percent, which FEC attributed to an increase in separation pay; and,
- Bonuses increased by 4.76 percent, caused by FEC distributing two types of bonuses in 2023.
 - One sales bonus based on market segments and goals in April 2023 and one holiday bonus for Christmas that included all salaried employees in December 2023.

² In 2017, Grupo México Transportes (GMXT) acquired FEC.

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

Table 1 – CY 2022-2023 Indirect Rates Comparison³

Group 2 - Maintenance of Roadway, Equipment, and Signal Employees			
Labor Surcharge Classification	Approved 2022 Rate	Submitted 2023 Rate	Rate Change Approved 2022 Rate - Submitted 2023 Rate
Sick Pay	0.19%	0.19%	0.00%
Holiday & Vacation Pay	8.37%	8.58%	0.21%
Other Paid Absences	2.05%	1.70%	-0.34%
Bonus	0.01%	0.56%	0.55%
Payroll Taxes	23.98%	23.65%	-0.33%
Health and Welfare	20.10%	19.98%	-0.12%
W/C, Public Liability & Property Damage Insurance	8.00%	8.00%	0.00%
Subtotal	62.69%	62.66%	-0.03%

Group 3 - Transportation Employees			
Labor Surcharge Classification	Approved 2022 Rate	Submitted 2023 Rate	Rate Change Approved 2022 Rate - Submitted 2023 Rate
Sick Pay	0.09%	0.22%	0.13%
Holiday & Vacation Pay	8.68%	9.41%	0.73%
Other Paid Absences	13.18%	9.97%	-3.21%
Bonus	0.37%	0.52%	0.15%
Payroll Taxes	26.52%	25.59%	-0.93%
Health and Welfare	17.60%	18.44%	0.84%
W/C, Public Liability & Property Damage Insurance	8.00%	8.00%	0.00%
Subtotal	74.44%	72.15%	-2.29%

³ The yellow highlighted cells show areas where rates had significant change from the prior year. The sum of the rates in this table may have a slight difference from the total due to rounding in the content.

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

Group 4 - General and Administrative Employees			
Labor Surcharge Classification	Approved 2022 Rate	Submitted 2023 Rate	Rate Change Approved 2022 Rate - Submitted 2023 Rate
Sick Pay	1.05%	1.29%	0.25%
Holiday & Vacation Pay	7.30%	8.54%	1.24%
Other Paid Absences	0.59%	2.28%	1.68%
Bonus	3.85%	8.61%	4.76%
Payroll Taxes	24.46%	25.71%	1.25%
Health and Welfare	18.03%	19.20%	1.17%
W/C, Public Liability & Property Damage Insurance	8.00%	8.00%	0.00%
Subtotal	63.28%	73.63%	10.35%

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

We recommend the Department's Freight and Rail Office review and consider approving FEC's CY 2023 indirect cost rates for use in billing costs for railroad-highway projects and communicate this decision to the Federal Highway Administration.

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

APPENDIX A – Purpose, Scope, and Methodology

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

- Calendar year (CY) 2023 indirect rates indirect rates are reasonable, and based on allowable costs; and
- supported by transparent and understandable records.

The **scope** of this audit consisted of the proposed CY 2023 indirect rates submitted by FEC and associated records and supporting documentation.

The **methodology** included:

- reviewing relevant regulations:
 - Title 23, Part 140, Code of Federal Regulations (C.F.R.), Subpart I – Reimbursement for Railroad Work, Subsection 906(b)(2)(ii)- Labor surcharges;
 - 23 C.F.R. 140.908(e)-Handling costs;
 - 23 C.F.R. 140.910(a)-Company owned equipment;
 - 48 C.F.R. 9904.405-Cost Accounting Standards, Accounting for Unallowable Costs; and
 - Title 41, United States Code (U.S.C.), Section 4304-Specific costs not allowable, Subsection (a)(16) Specific Costs.
- reviewing FEC's Indirect Cost Rates Reporting Packet;
- identifying and reviewing account classification differences between the CYs 2022 and 2023;
- re-performing rate calculations;
- performing comparative analysis in CYs 2022 and 2023 rate data; and
- corresponding with key staff and reviewing selected work papers prepared internally by FEC.

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

APPENDIX B – 2023 Labor Additive Surcharge Rates⁴

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

Sick Pay	0.19%
Holiday & Vacation Pay	8.58%
Other Paid Absences	1.70%
Bonus	0.56%
Payroll Taxes	23.65%
Health and Welfare	19.98%
W/C, Public Liability & Property Damage Insurance	8.00%
Total	<u>62.66%</u>

Group III - Transportation Employees

Sick Pay	0.22%
Holiday & Vacation Pay	9.41%
Other Paid Absences	9.97%
Bonus	0.52%
Payroll Taxes	25.59%
Health and Welfare	18.44%
W/C, Public Liability & Property Damage Insurance	8.00%
Total	<u>72.15%</u>

Group IV - General and Administrative Employees

Sick Pay	1.29%
Holiday & Vacation Pay	8.54%
Other Paid Absences	2.28%
Bonus	8.61%
Payroll Taxes	25.71%
Health and Welfare	19.20%
W/C, Public Liability & Property Damage Insurance	8.00%
Total	<u>73.63%</u>

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.

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

APPENDIX C – Comparison of CY 2022 and 2023 Indirect Rates⁵

Group II - Maintenance of Roadway, Equipment, and Signal Employees	2022 Approved	2023 Submitted
Sick Pay	0.19%	0.19%
Holiday & Vacation Pay	8.37%	8.58%
Other Paid Absences	2.05%	1.70%
Bonus	0.01%	0.56%
Payroll Taxes	23.98%	23.65%
Health and Welfare	20.10%	19.98%
W/C, Public Liability & Property Damage Insurance	8.00%	8.00%
Total	62.69%	62.66%

Group III - Transportation Employees	2022 Approved	2023 Submitted
Sick Pay	0.09%	0.22%
Holiday & Vacation Pay	8.68%	9.41%
Other Paid Absences	13.18%	9.97%
Bonus	0.37%	0.52%
Payroll Taxes	26.52%	25.59%
Health and Welfare	17.60%	18.44%
W/C, Public Liability & Property Damage Insurance	8.00%	8.00%
Total	74.44%	72.15%

Group IV - General and Administrative Employees	2022 Approved	2023 Submitted
Sick Pay	1.05%	1.29%
Holiday & Vacation Pay	7.30%	8.54%
Other Paid Absences	0.59%	2.28%
Bonus	3.85%	8.61%
Payroll Taxes	24.46%	25.71%
Health and Welfare	18.03%	19.20%
W/C, Public Liability & Property Damage Insurance	8.00%	8.00%
Total	63.28%	73.63%

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

⁵ The sum of the rates in this chart may have a slight difference from the total due to rounding in the content.

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

APPENDIX D – Affected Entity Response



**February 25, 2025
Florida Department of Transportation
Office of Inspector General**

Kristofer B Sullivan

**Cc: Joseph Gilboy
Barbara Brown-Walton
Nicholas Cooper
Rebecca Stremcha**

Re: Florida East Coast Railway 2023 Indirect Rates

This letter is with regard to the 2023 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 black ink, appearing to read 'Genaro', written over a horizontal line.

**Genaro Guerrero Diaz Mercado
SVP & Chief Financial Officer**

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

APPENDIX E – Management Response

On April 4, 2025, the OIG received the response from Holly Cohen, Freight and Rail Planning Administrator of the Department's Freight and Rail Office:

Finding 1 – Reasonable, Allocable, and Allowable Costs

Finding: We determined the calendar year (CY) 2023 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.

We also determined FEC'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 consider approving FEC's CY 2023 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: None

Estimated Completion Date: N/A

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

DISTRIBUTION

Responsible Manager:

Melissa Smith, Chief of Modal Development
Daniel Fetahovic, Manager, Freight and Rail Office
Kelli Phillips, Rail Safety and Operations Administrator
Holly Cohen, Freight and Rail Planning Administrator

Internal Distribution:

Jared W. Perdue, P.E., Secretary, Department of Transportation
Jessica Ottaviano, Chief of Staff
Will Watts, P.E., Assistant Secretary for Engineering and Operations
Lisa Saliba, Assistant Secretary for Finance and Administration
Kim Holland, P.E., Assistant Secretary for Strategic Development
Rebekah Davis, General Counsel
Trey Tillander, P.E., Executive Director of Transportation Technology
L.K. Nandam, P.E., District One Secretary
Greg Evans, P.E., District Two Secretary
Phillip Gainer, P.E., District Three Secretary
Steven C. Braun, P.E., District Four Secretary
John E. Tyler, P.E., District Five Secretary
Daniel Iglesias, P.E., District Six Secretary
Justin Hall, District Seven Secretary
Nicola Liquori, CPA, Executive Director, Florida's 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
Genaro Guerrero, Chief Financial Officer, Florida East Coast Railway
Kevin Hodges, Director of Accounting, Florida East Coast Railway
Angie Patton, Controller, Florida East Coast Railway
Leighanna Cole, Director of Compensation and Benefits, Florida East Coast Railway
Tresa Landa, Payroll Manager, Florida East Coast Railway
Yvonne Lacount, Senior Payroll Associate, Florida East Coast Railway

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

PROJECT TEAM

Engagement was conducted by:
Rebecca Stremcha, Auditor

Under the supervision of:
Nicholas Cooper, Senior Audit Supervisor
Barbara Brown-Walton, 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.