



Florida Department of TRANSPORTATION

Office of Inspector General Kristofer B. Sullivan, Inspector General

Audit Report No. 25I-003
CSX Transportation, Inc. 2023 Indirect Rate

DocuSigned by:

Kristofer B. Sullivan

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June 26, 2025

What We Did

The Florida Department of Transportation's (Department) Office of Inspector General audited fiscal year (FY) 2023 indirect rates submitted by CSX Transportation, Inc. (CSXT) to determine whether the 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 outlined 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 variances:

- 4.1 percent increase in the Engineering Craft rate primarily due to:
 - Department Support claimed costs increased by \$60.7 million, slightly offset by increased direct labor.
 - Fringe claimed costs increased by \$42.4 million, slightly offset by increased direct labor.
 - Claimed cost increases were primarily due to an increase in management labor and associated fringes due to inflation.
- 4.5 percent decrease in Transportation Craft primarily due to:
 - Payroll Taxes decreased by 3.2 percent from the previous year. The overall decrease in this pool was primarily driven by a smaller increase in claimed costs of \$14.1 million compared to the larger increase of \$99 million in the labor base.

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- Claimed cost increases were primarily due to inflation and wage increases as a result of the PEB settlement and increased headcount.

What We Recommend

We recommend the Department's Freight and Rail Office review the category rate changes and consider approving CSXT's FY 2023 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 2023, CSXT employed approximately 23,000 individuals, which included 17,700 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 crossings 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.

Self-Insured Rate Additive

When a rail company is self-insured, 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 allow the following reimbursement:

- At experience rates properly developed from actual costs, not to exceed the rates of a regular insurance company for the class of employment covered, or
- At the option of the company, a fixed rate of 8 percent of direct labor costs for workers compensation and public liability and property damage insurance together.

CSXT, a self-insured entity, has chosen not to include a properly developed rate additive or the standard 8% fixed rate within the cost pools submitted for the fiscal year (FY) 2023. Therefore, this rate was not included as part of our FY 2023 review.

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.

2023 Rate Methodology Enhancements

During this engagement, we reviewed significant enhancements to the rate methodology, as notated by CSXT. On June 1, 2022, CSXT acquired Pan Am; however CSXT conservatively elected not to include the costs associated with Pan Am in the 2022 rate calculation, as they were not yet fully integrated with CSXT.

In 2023, CSXT analyzed Pan Am accounts, and allowable costs were included in the rate, as applicable.

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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 outlined 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 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 decreased from 5,600 in FY 2022 to 5,500 in FY 2023, 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; and
- Machinists.

CSXT's FY 2023 Engineering Craft cost pool increased 4.1 percent from FY 2022, see Table 1.

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Table 1: Engineering Rate Variance Analysis

Engineering Cost Pools	2022 Approved Rate	2023 Submitted Rate	Rate Change 2022 to 2023
Collective Bargaining Agreement	21.7%	21.9%	0.2%
Department Support Costs	10.0%	20.6%	10.6%
Fringe	35.5%	38.3%	2.8%
Payroll Taxes	26.1%	23.5%	-2.6%
Project Management	26.4%	22.7%	-3.7%
Small Tools, Safety & Supplies	3.7%	3.3%	-0.4%
Training	0.1%	0.1%	0.0%
Vehicle & Equipment	45.2%	42.4%	-2.8%
Engineering Subtotal	168.7%	172.8%	4.1%

Source: CSXT Indirect Cost Rates Reporting Packages for the years ending December 31, 2022, and December 31, 2023.

The major contributors to the FY 2023 rate increase include:

- Department Support claimed costs increased by \$60.7 million, slightly offset by increased direct labor. Claimed cost increases were due to:
 - Increase due to a decrease in scrap recovery of \$29.3 million.
 - Increase in costs related to the removal/purchase of crossties of \$18.6 million.
 - Increase in project expenses related to bridge repairs of \$3.7 million.
 - Increase in Premium Tax Credit (PTC) related costs of \$2.3 million.
 - Increase in costs related to snow removal of \$1.3 million.
 - Increase in net positive change, none of which are individually significant of \$5.5 million.
- Fringe claimed costs increased by \$42.4 million slightly offset by increased direct labor. Claimed cost increases were due to:
 - Increase in Health and Welfare (H&W) due to large negative adjustment in prior year primarily related to back pay of \$17.4 million.
 - Increase in vacation/sick/holiday/personal leave as a result of the PEB¹ settlement of \$14.9 million.
 - Increase in performance bonus payments implemented as a result of the PEB settlement of \$9.8 million.
 - Increase in net positive change, none of which are individually significant of \$0.3 million.

¹ Presidential Emergency Board (PEB) settlement under 45 U.S. Code Chapter 8, the *Railway Labor Act*.

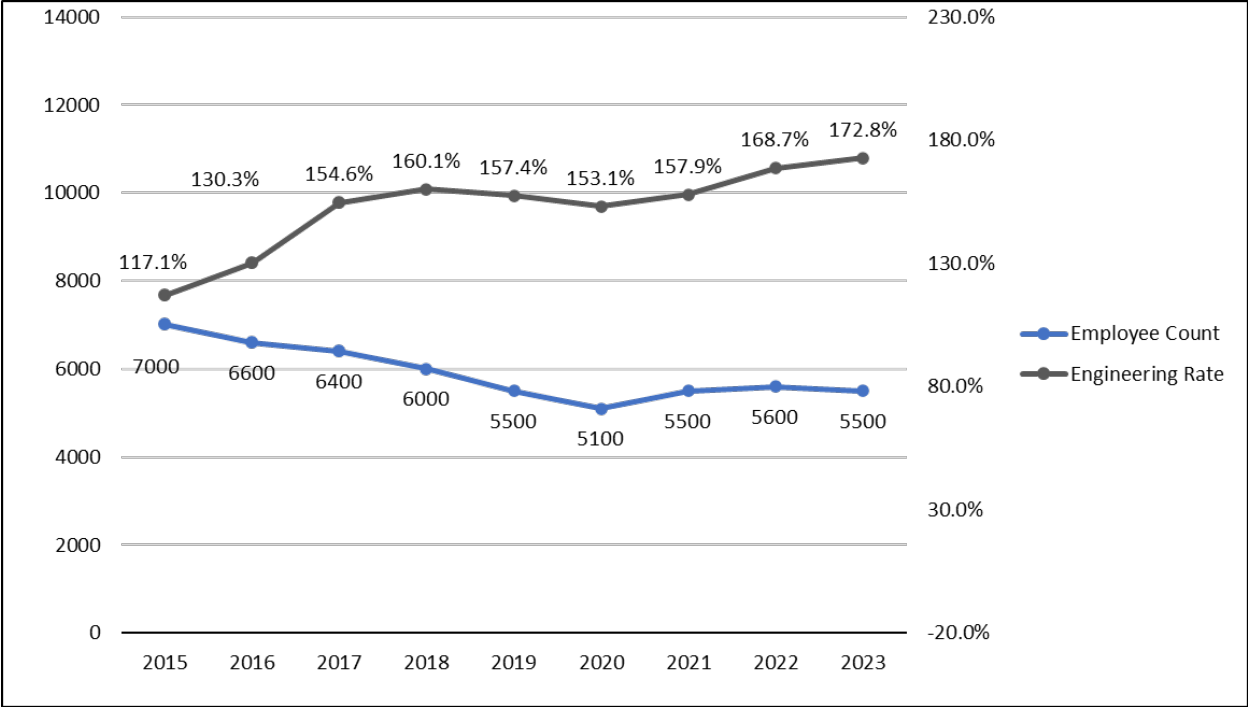
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Decreases within these cost pools include:

- Payroll Taxes. The overall decrease in this pool was primarily driven by a smaller increase in claimed costs of \$8.2 million compared to the larger increase of \$80 million in the labor base. Claimed cost increases were primarily due to inflation and wage increases as a result of the PEB settlement.
- Project Management. The overall decrease in this pool was primarily driven by a smaller increase in claimed costs of \$2.1 million compared to the larger increase of \$80 million in the labor base. Claimed cost increases were primarily due to an increase in management labor and associated fringes due to inflation.
- Vehicle and Equipment. The overall decrease in this pool was primarily driven by a smaller increase in claimed costs of \$22.3 million compared to the larger increase of \$80 million in the labor base. Claimed cost increases were due to:
 - Increase in procard² expenses for vehicle operations of \$10.8 million.
 - Increase in work equipment rental costs of \$7.6 million.
 - Increase in work equipment and material costs of \$3.8 million.

Chart 1 illustrates the historical rate and employee changes in the Engineering Craft from FY 2015 through 2023.

Chart 1: Engineering Craft Historical Rate and Employee Changes FYs 2015-2023



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

² A form of company charge card that allows goods and services to be procured.

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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 8,100 in FY 2022 to 8,500 in FY 2023, see Table 2.

Transportation Craft positions include:

- Freight Conductors;
- Locomotive Engineers;
- Train Dispatchers; and
- Yardmasters.

CSXT's FY 2023 Transportation Craft cost pool decreased 4.5 percent from FY 2022, see Table 2.

Table 2: Transportation Rate Variance Analysis

	2022	2023	
	Approved	Submitted	Rate Change
Transportation Cost Pools	Rate	Rate	2022 to 2023
Collective Bargaining Agreement	26.5%	26.8%	0.3%
Fringe	50.0%	48.7%	-1.3%
Payroll Taxes	34.7%	31.5%	-3.2%
Project Management	24.0%	22.3%	-1.7%
Training	7.4%	8.8%	1.4%
Transportation Subtotal	142.6%	138.1%	-4.5%

Source: CSXT Indirect Cost Rates Reporting Packages for the years ending December 31, 2023, and December 31, 2022.

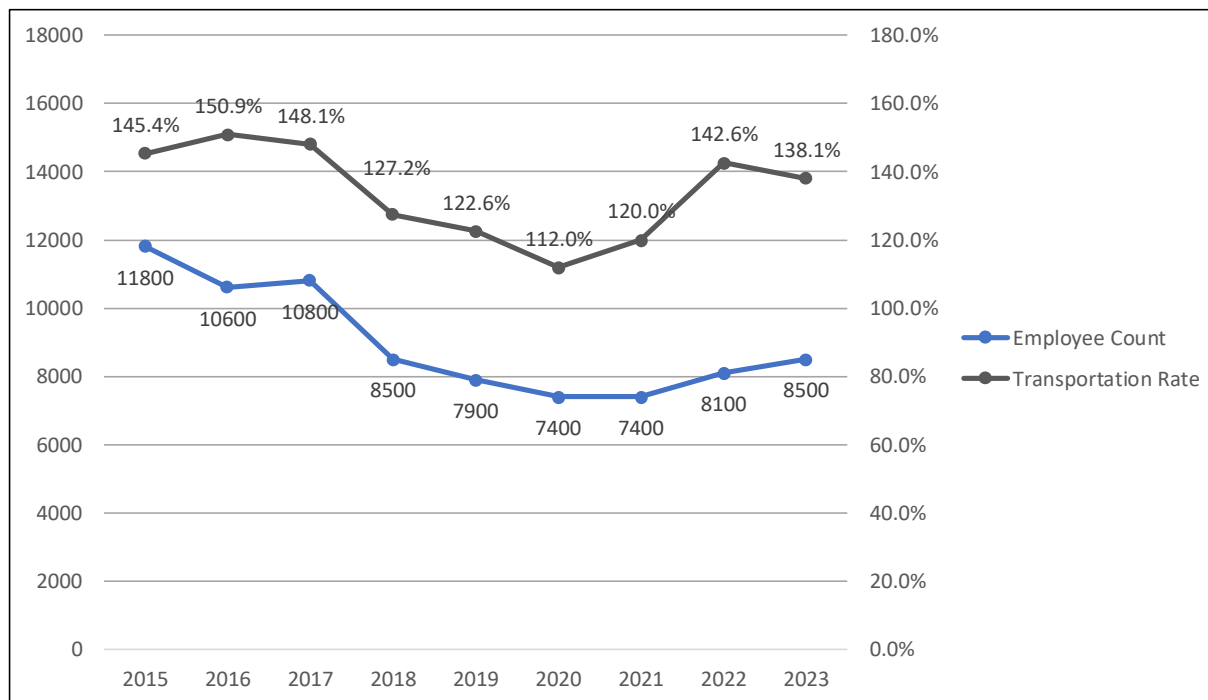
The major contributors to the FY 2023 rate decrease include:

- Payroll Taxes pool overall decrease was primarily driven by a smaller increase in claimed costs of \$14.1 million, compared to the larger increase of \$99 million in the labor base. Claimed cost increases were primarily due to inflation and wage increases as a result of the PEB settlement and increased headcount.

Chart 2 illustrates the historical rate and employee changes in the Transportation Craft from FY 2015 through 2023.

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Chart 2: Transportation Craft Historical Rate and Employee Changes FYs 2015-2023



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

We recommend the Department's Freight and Rail Office review the category rate changes, and consider approving CSXT's FY 2023 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 2023 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 2023 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 2022 and 2023 rate data;
and
- review of EY's audit report and selected workpapers.

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APPENDIX B – CSXT 2023 Indirect Rate Cost Pool Schedules Submitted

Component	Operating Expense G/L Balance	Unallowable Costs	Voluntarily Excluded Costs	Recapture of Capitalized Costs	Adjustments and Reclassifications	Final Claimed Costs	Indirect Rate
Engineering Craft Direct Labor	\$ 286,046,401	\$ -	\$ -	\$ 244,562,676	\$ (33,977,645)	\$ 496,631,432	100.0%
Engineering Cost Pools							
Collective Bargaining Agreement	61,269,558	(1,365,780)	-	50,534,652	(1,476,877)	108,961,553	21.9%
Department Support Costs	121,515,687	(1,493,443)	(59,316,819)	41,829,263	(111,877)	102,422,811	20.6%
Fringe	91,969,429	(458,375)	(2,455,810)	90,095,557	11,109,672	190,260,473	38.3%
Payroll Taxes	56,452,485	-	-	60,456,707	(77,482)	116,831,710	23.5%
Project Management	54,321,155	-	-	39,994,206	17,805,054	112,120,415	22.7%
Small Tools, Safety & Supplies	19,631,487	(4,891)	(11,288,842)	6,574,664	1,457,792	16,370,210	3.3%
Training	575,970	-	-	11,143	(16,621)	570,492	0.1%
Vehicle and Equipment	109,339,396	(471,921)	(1,536,447)	97,440,588	5,995,763	210,767,379	42.4%
Subtotal Indirect Costs	\$ 515,075,167	\$ (3,794,410)	\$ (74,597,918)	\$ 386,936,780	\$ 34,685,424	\$ 858,305,043	172.8%
Transportation Craft Direct Labor	\$ 613,699,894	\$ -	\$ (226,433)	\$ 1,615,262	\$ (96,301)	\$ 614,992,422	100.0%
Transportation Cost Pools							
Collective Bargaining Agreement	169,933,339	(3,785,346)	(23,480)	17,451	(1,220,496)	164,921,468	26.8%
Fringe	296,964,108	(322,980)	(8,384,881)	410,759	10,911,111	299,578,117	48.7%
Payroll Taxes	193,334,112	-	-	329,683	(128,391)	193,535,404	31.5%
Project Management	116,102,505	-	-	56,769	21,305,475	137,464,749	22.3%
Training	53,936,006	-	-	99	(6,149)	53,929,956	8.8%
Subtotal Indirect Costs	\$ 830,270,070	\$ (4,108,326)	\$ (8,408,361)	\$ 814,761	\$ 30,861,550	\$ 849,429,694	138.1%

Source: CSX Transportation Cost Pool Schedule of Direct Labor and Indirect Cost Rates for the Year Ended 12/31/2023

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APPENDIX C – Affected Entity Response



April 29, 2025

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

Barbara Brown-Walton, 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. Brown-Walton:

We have reviewed the draft audit report No. 23I-014 (CSXT 2023 Fringe/Indirect Rate) received on April 22, 2025. 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 'A Williams', is written over a light blue circular background.

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

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APPENDIX D – Management Response

On June 16, 2025, the OIG received the response from Daniel Fetahovic, Rail and Freight 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 outlined 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 variances:

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 - Claimed cost increases were primarily due to inflation and wage increases as a result of the PEB settlement and increased headcount.

Recommendation: We recommend the Department's Freight and Rail Office review the category rate changes and consider approving CSXT's 2023 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:

Estimated Completion Date:

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Daniel Fetahovic, Manager, Freight and Rail Office
Kelli Phillips, Rail Safety and 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:
Ashley Clark, 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.