



Florida Department of Transportation
Office of Inspector General
Kristofer B. Sullivan, Inspector General

CSX Transportation 2024 Indirect Rate Review
Report No. 26I-002

DocuSigned by:
Kristofer B. Sullivan
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June 25, 2026

What We Did

The Florida Department of Transportation's (Department) Office of Inspector General audited fiscal year 2024 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 (EY) 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:

- 4.3 percentage point increase in the Engineering Craft rate primarily due to a \$25.3 million increase in CSXT's Department Support Costs, represented in Table 1 below, attributable to an increase in materials costs and a slight offset in labor costs.
- 2.7 percentage point decrease in the Transportation Craft rate. No individual transportation cost had a material impact on the overall rate change.

We reviewed and verified that the submitted General Office Cost Pool rates are reasonable, allocable, and allowable. However, the Freight and Rail Office does not reimburse the General Office rate. We also reviewed the force account insurance methodology and found it reasonable. CSXT provided insurance company documentation supporting the calculation of the account rates.

What We Recommend

We recommend the Department's Freight and Rail Office review the category rate changes and consider approving CSXT's 2024 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 publicly traded CSX Corporation, is a Class I railroad headquartered in Jacksonville, Florida. It owns and operates 20,000 route miles of track in 26 states, the District of Columbia, and 2 Canadian provinces. As of December 2024, CSXT employed approximately 23,500 individuals, including 17,700 union employees. CSXT transports a variety of freight across its network, servicing 3 primary lines of business: 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 projects, including direct union labor, labor surcharges (e.g., benefits), and indirect overhead costs. CSXT bills for labor surcharges 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.

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.

2024 Rate Methodology Enhancements

There were no new rate methodology enhancements.

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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 and the Indirect Cost Rates Reporting Package (audit report) prepared by Ernst & Young LLP (EY). We also performed substantive testing as part of our evaluation. The following subsections outline our observations of CSXT's indirect rate submission.

We reviewed and verified that the submitted General Office Cost Pool rates are reasonable, allocable, and allowable. However, the Freight and Rail Office does not reimburse the General Office rate. We also reviewed the force account insurance methodology and found it reasonable. CSXT provided insurance company documentation supporting the calculation of the account rates.

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 2023 to 5,600 in FY 2024. 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.

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CSXT's Engineering Craft cost pool increased 4.3 percentage points from FY 2023 to FY 2024. See Table 1.

Table 1: Engineering Rate Variance Analysis

Engineering Cost Pools	2023 Approved Rates	2024 Submitted Rates	Rate Change (Percentage Points)
Collective Bargaining Agreement	21.9%	22.9%	1.0%
Department Support Costs	20.6%	24.4%	3.8%
Fringe	38.3%	37.9%	-0.4%
Payroll Taxes	23.5%	22.5%	-1.0%
Project Management	22.7%	22.6%	-0.1%
Small Tools, Safety & Supplies	3.3%	2.9%	-0.4%
Training	0.1%	0.1%	0.0%
Vehicle & Equipment	42.4%	43.8%	1.4%
Engineering Subtotal	172.8%	177.1%	4.3%

Source: CSXT Indirect Cost Rate Reporting Packages for the years ending December 31, 2023, and December 31, 2024.

The major contributors to the FY 2024 rate increase include:

- CSXT’s Engineering Department Support Costs, represented in Table 1 - The overall increase in this pool was driven by increases in claimed costs of \$25.3 million, slightly offset by the increased labor costs. Claimed cost increases were due to:
 - \$9 million increase due to a decrease in scrap recovery
 - \$7.2 million increase in signal material costs, which are now included in the rate due to an immaterial amount of direct billing
 - \$7.1 million increase in costs related to the removal/purchase of crossties
 - \$4 million increase in ballast material costs
 - \$3.7 million increase in expenses related to Pan Am tie/track replacement

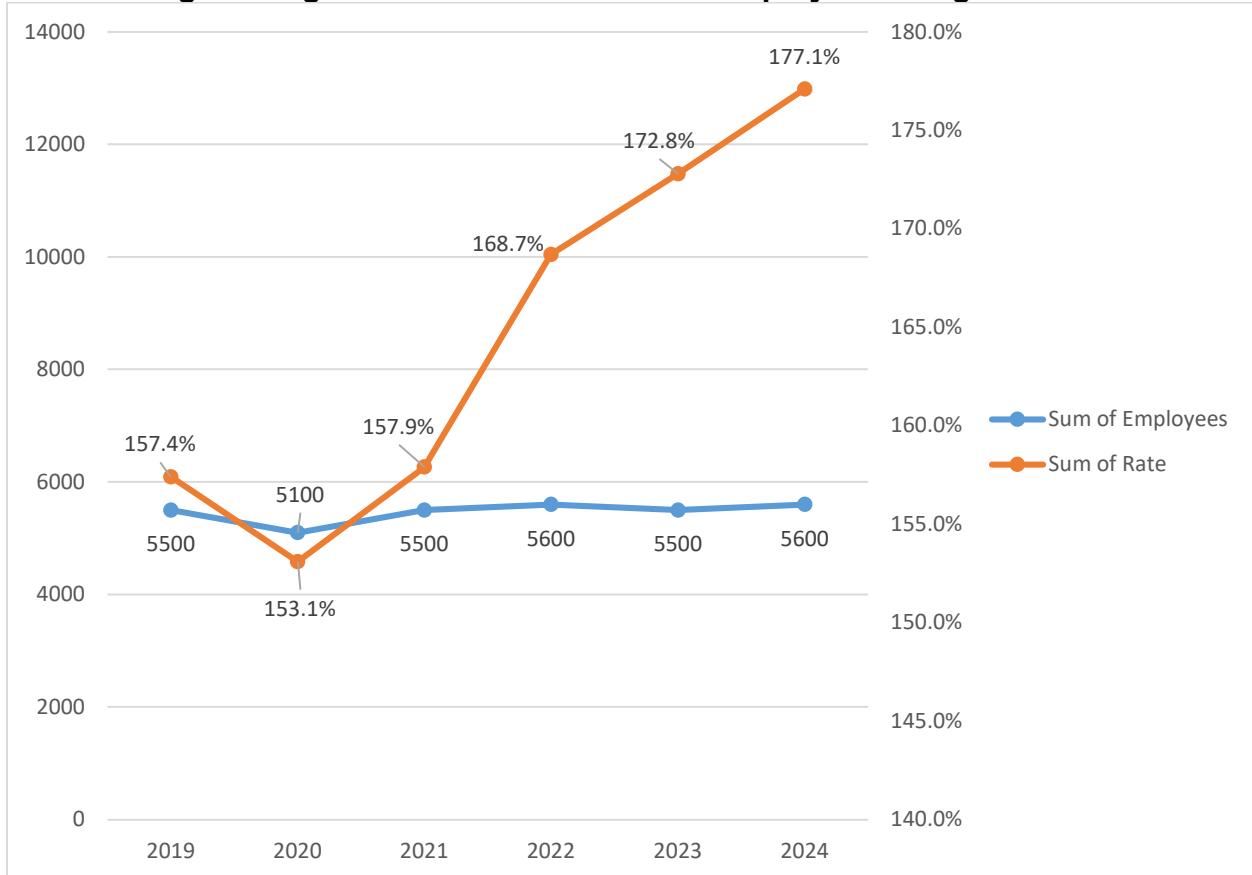
Offset by:

- \$3.9 million decrease in bridge repair and software purchase expenses
- \$1.8 million decrease in net negative change, none of which are individually significant

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Chart 1 illustrates the historical rate and employee changes in the Engineering Craft from FY 2019 through 2024.

Chart 1: Engineering Craft Historical Rate and Employee Changes FY's 2019-2024



Source: 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 remained at 8,500 from FY 2023 to FY 2024. See Chart 2.

Transportation Craft positions include:

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

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CSXT's Transportation Craft cost pool decreased 2.7 percentage points from FY 2023 to FY 2024. See Table 2.

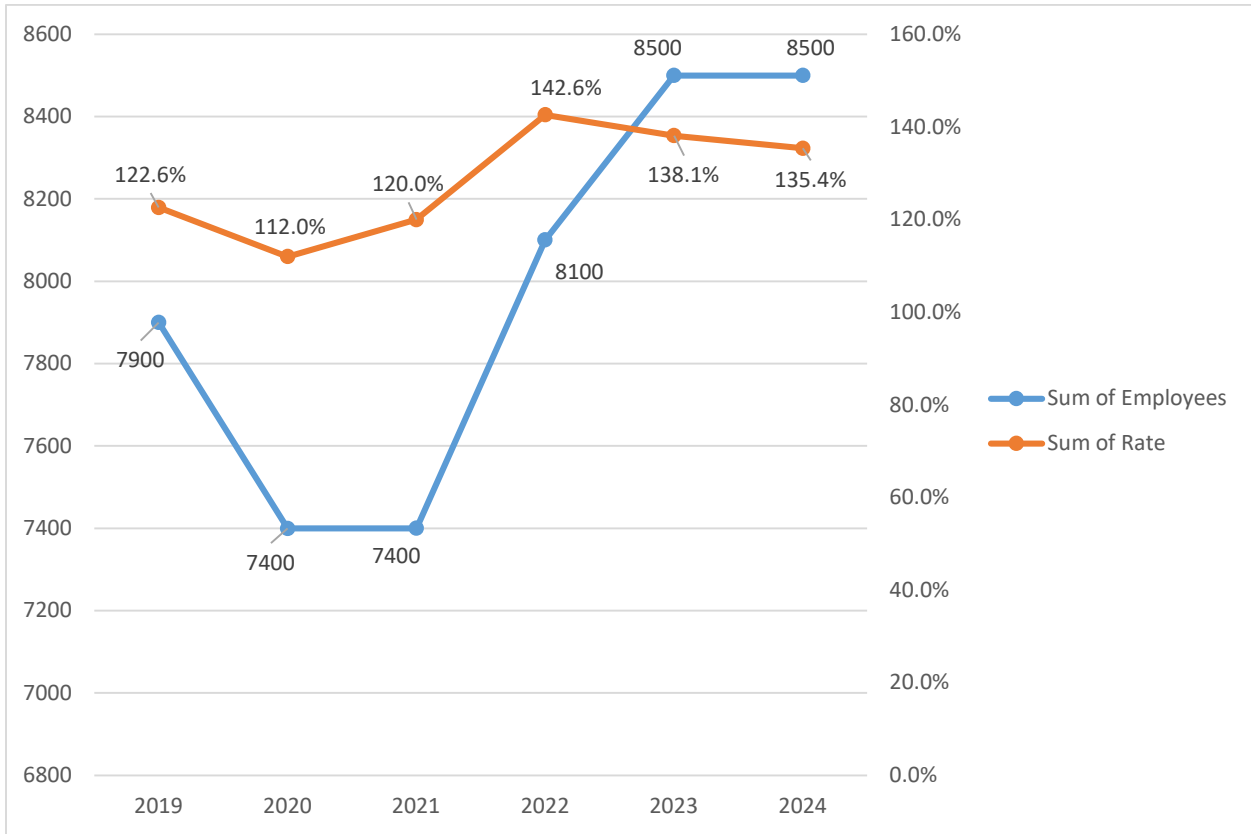
Table 2: Transportation Rate Variance Analysis

Transportation Cost Pools	2023 Approved Rates	2024 Submitted Rates	Rate Change (Percentage Points)
Collective Bargaining Agreement	26.8%	25.7%	-1.1%
Fringe	48.70%	49.9%	1.2%
Payroll Taxes	31.5%	29.9%	-1.6%
Project Management	22.3%	21.7%	-0.6%
Training	8.8%	8.2%	-0.6%
Transportation Subtotal	138.1%	135.4%	-2.7%

Source: CSXT Indirect Cost Rate Reporting Packages for the years ending December 31, 2023, and December 31, 2024.

Chart 2 illustrates the historical rate and employee changes in the Transportation Craft from FY 2019 through 2024.

Chart 2: Transportation Craft Historical Rate and Employee Changes FY's 2019-2024



Source: Created by auditor from CSXT Indirect Rate Reporting Packages.

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We recommend the Department's Freight and Rail Office review the category rate changes and consider approving CSXT's 2024 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 2024 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 2024 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 2024 and 2023 rate data; and
- review of EY's audit report and selected workpapers.

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APPENDIX B – CSXT 2024 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 Direct Labor Base	\$ 325,800,872	\$ -	\$ -	\$ 252,278,840	\$ (54,531,575)	\$ 523,548,137	
Engineering Cost Pools							
Collective Bargaining Agreement	67,113,100	(1,188,967)	-	55,367,586	(1,346,517)	119,945,202	22.9%
Department Support Costs	172,691,910	(1,723,168)	(64,153,784)	43,779,198	(22,832,100)	127,762,056	24.4%
Fringe	103,497,004	-	(3,046,618)	90,836,915	7,225,122	198,512,423	37.9%
Payroll Taxes	60,810,732	-	-	58,658,619	(1,645,015)	117,824,336	22.5%
Project Management	56,344,040	-	-	47,851,363	14,044,225	118,239,628	22.6%
Small Tools, Safety & Supplies	19,525,343	(4,953)	(10,467,254)	5,443,857	925,184	15,422,177	2.9%
Training	559,621	-	(179,003)	16,898	-	397,516	0.1%
Vehicle and Equipment	115,011,570	(123,927)	(1,154,836)	110,754,890	4,642,977	229,130,674	43.8%
Subtotal Indirect Costs	\$ 595,553,320	\$ (3,041,015)	\$ (79,001,495)	\$ 412,709,326	\$ 1,013,876	\$ 927,234,012	177.1%
Transportation Direct Labor	\$ 645,683,698	\$ -	\$ 668,604	\$ 3,406,007	\$ (107,942)	\$ 649,650,367	
Transportation Cost Pools							
Collective Bargaining Agreement	168,885,876	(1,318,764)	(57,960)	476	(786,298)	166,723,330	25.7%
Fringe	326,854,260	-	(7,367,828)	611,853	4,736,431	324,834,716	49.9%
Payroll Taxes	196,307,983	-	-	542,088	(2,675,310)	194,174,761	29.9%
Project Management	123,845,693	-	-	775,710	16,039,449	140,660,852	21.7%
Training	53,449,398	-	-	189	(2,435)	53,447,152	8.2%
Subtotal Indirect Costs	\$ 869,343,210	\$ (1,318,764)	\$ (7,425,788)	\$ 1,930,316	\$ 17,311,837	\$ 879,840,811	135.4%
General Office Direct Labor	\$ 1,183,467,780	\$ -	\$ 100,488	\$ 261,268,369	\$ (54,578,798)	\$ 1,390,257,839	
General Office Cost Pools							
Fixed Costs	1,509,933,160	-	(1,062,185,624)	24,326,292	(23,296,951)	448,774,877	32.3%
General and Administration	1,315,278,649	(87,252,053)	(937,551,487)	17,093,920	(86,677,911)	220,891,118	15.9%
Subtotal Indirect Costs	\$ 2,825,211,809	\$ (87,252,053)	\$ (1,999,737,111)	\$ 41,420,212	\$ (109,976,862)	\$ 669,665,995	48.2%
Total Indirect Costs (Note 4)	\$ 4,290,108,339	\$ (91,611,832)	\$ (2,086,164,394)	\$ 456,059,854	\$ (91,651,149)	\$ 2,476,740,818	

Component	Engineering	Transportation
Craft rates	177.1%	135.4%
General Office rate	48.2%	48.2%
Labor Additive - Force Account Insurance	16.0%	16.0%
Total Labor-Based Rates by Craft	241.3%	199.6%

Additional Rates		
Standard Additive - Materials Handling	5.0%	5.0%

Source: CSX Transportation Cost Pool Schedule of Direct Labor and Indirect Cost Rates for the Year Ended 12/31/24.

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APPENDIX C – Affected Entity Response

The OIG received an email from Matthew Motta, Sr. Manager, Compliance and Analysis, CSX Transportation, Inc., on March 6, 2026, indicating that CSX Transportation management has no additional comments or responses.

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APPENDIX D – Management Response

On May 1, 2026, the OIG received the following response from Daniel Fetahovic, Manager of the 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 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:

- 4.3 percentage point increase in the Engineering Craft rate primarily due to a \$25.3 million increase in CSXT's Department Support Costs, represented in Table 1 below, attributable to an increase in materials costs and a slight offset in labor costs.
- 2.7 percentage point decrease in the Transportation Craft rate. No individual transportation cost had a material impact on the overall rate change

Recommendation: We recommend the Department's Freight and Rail Office review the category rate changes and consider approving CSXT's 2024 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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DISTRIBUTION

Responsible Manager:

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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

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Under the supervision of:
Nicholas Cooper, Senior Audit Supervisor
Babara 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 using The Institute of Internal Auditors' *Global Internal Auditing Standards* as a guide.

Please address inquiries regarding this report to the Department's Office of Inspector General at (850) 410-5800.

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ATTACHMENT 1 – Criteria

The following criteria were used for this engagement:

23 CFR – Part 646 – Subpart B – Railroad Highway Projects (2017): provides policies and procedures for which types of railroad projects are reimbursable by the Federal government.

23 CFR – Part 140 – Subpart I – Reimbursement for Railroad (2017): provides general guidance for reimbursement to the States for railroad work projects.

- **23 CFR 140.906** provides the procedures for using an additive rate as well as the use of an 8% fixed rate for direct labor costs for worker's compensation and public liability and property damage insurance together;
- **23 CFR 140.907** requires annual calculation of indirect (overhead) rates and states that costs must be eligible for reimbursement under Federal Acquisition Regulation (FAR) at 48 CFR 31.2;
- **23 CFR 140.908** states 5% of the amounts billed for the materials and supplies which are issued from company stores and material yards will be reimbursable in lieu of actual costs; and
- **23 CFR 140.910** states that cost of company-owned equipment may be reimbursed for the average or actual cost of operation, light and running repairs, and depreciation, or at industry rates representative of actual costs as agreed to by the railroad, the State Highway Agency (SHA), and the Federal Highway Authority (FHWA).

48 FAR – Part 31.201-2 – Federal Acquisition Regulation (2024): states that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. A cost is allocable (reimbursable by the Government) if it is incurred specifically for the government contract; Benefits both the contract and other work and can be distributed to them in reasonable proportion to the benefits received; or is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.

48 CFR – Subpart 9904-405 Accounting Standards for Unallowable Cost (2017): requires the use of an adequate accounting system to establish and maintain visibility of identified unallowable costs.

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