



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

Florida East Coast Railway 2024 Indirect Rates
Report No. 26I-005

DocuSigned by:
Kristofer B. Sullivan
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June 5, 2026

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) 2024 to determine whether they are reasonable, based on allocable and allowable costs, and supported by transparent and understandable records.

What We Concluded

We determined the CY 2024 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 2024 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

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, 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 (2024);
- 23 C.F.R. 140.908(e)-Handling Costs (2024);
- 23 C.F.R. 140.910(a)-Company Owned Equipment (2024);
- 48 C.F.R. 9904.405-Cost Accounting Standards, Accounting for Unallowable Costs (2024); 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 2024, 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).

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- 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.

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RESULTS OF REVIEW

We determined the calendar year (CY)¹ 2024 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 2024 FDOT Indirect Cost Rates Reporting Packet submitted by FEC's Manager for Compensation and Benefits, and noted there were no changes in FEC's rate methodology from the prior year. FEC's administrative functionality underwent the following changes from the prior year.

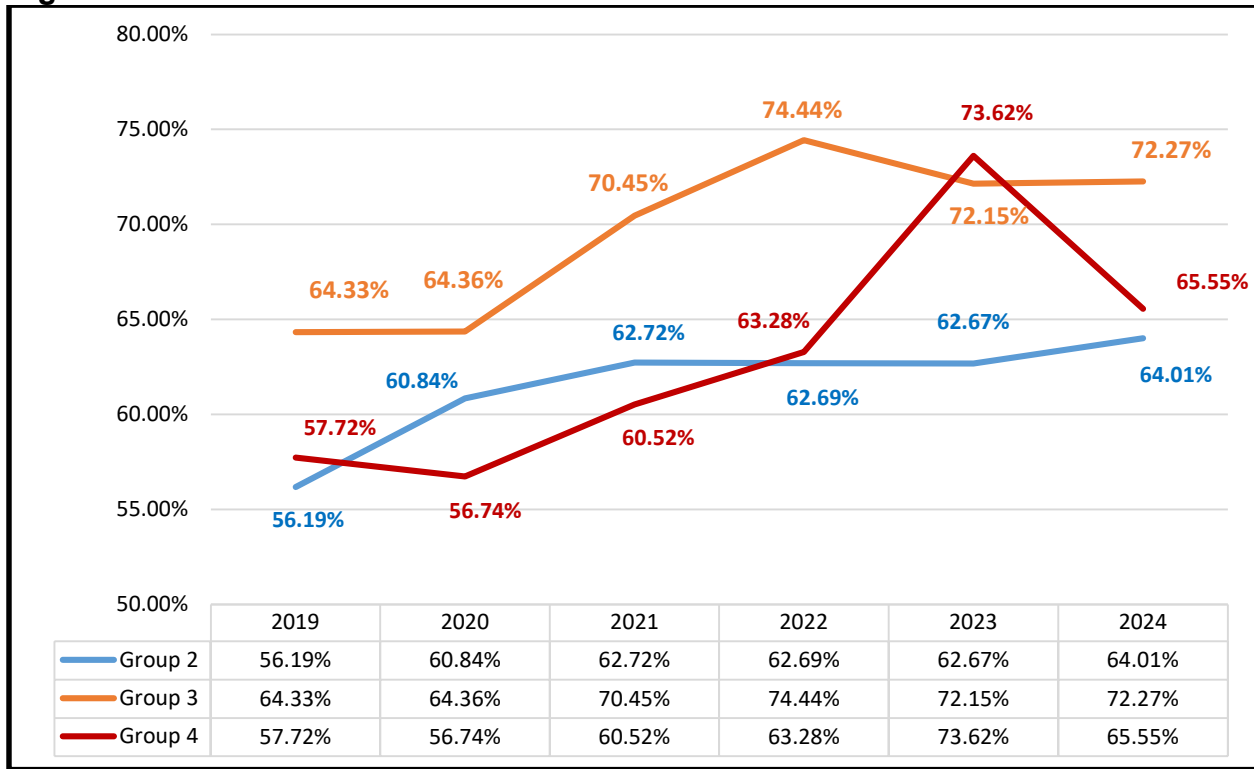
- The Assistant Vice President of Finance and Accounting and the Manager for Compensation and Benefits positions changed from the prior year. Both positions are involved in the rate calculation.
- The Executive Vice President and the Chief Operating Officer positions changed from the prior year. These positions are both part of the FEC Executive Leadership team.

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 as its fiscal year.

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Figure 1 – FEC Historical Indirect Rates from 2019 to 2024²



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

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

Group 4

The total variance in CY 2024 for Group 4 was an 8.08 percent decrease from the CY 2023 Group 4 total. The Manager for Compensation and Benefits indicated two primary reasons for this variance:

- Other Paid Absences decreased by 2.13 percent, caused by fewer instances of funeral leave, jury duty, and separation pay.
- Bonuses decreased by 5.95 percent, caused by fewer bonuses paid to senior management. FEC explained that bonuses were not guaranteed from year to year and were based on company and employee performance, and were not built into the salary structure.

² In 2017, Grupo México Transportes acquired FEC.

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Table 1 – CY 2023-2024 Indirect Rates Comparison³

Group 2 - Maintenance of Roadway, Equipment, and Signal Employees

Labor Surcharge Classification	Approved 2023 Rate	Submitted 2024 Rate	Rate Change (2023-2024)
Sick Pay	0.19%	0.14%	-0.05%
Holiday & Vacation Pay	8.58%	7.98%	-0.60%
Other Paid Absences	1.70%	2.11%	0.41%
Bonus	0.56%	0.50%	-0.06%
Payroll Taxes	23.65%	23.59%	-0.06%
Health and Welfare	19.98%	21.69%	1.71%
W/C, Public Liability & Property Damage Insurance	8.00%	8.00%	0.00%
Subtotal	62.66%	64.01%	1.35%

Source: OIG generated using data provided by FEC.

Group 3 - Transportation Employees

Labor Surcharge Classification	Approved 2023 Rate	Submitted 2024 Rate	Rate Change (2023-2024)
Sick Pay	0.22%	0.07%	-0.15%
Holiday & Vacation Pay	9.41%	9.37%	-0.04%
Other Paid Absences	9.97%	10.00%	0.02%
Bonus	0.52%	0.49%	-0.03%
Payroll Taxes	25.59%	25.55%	-0.04%
Health and Welfare	18.44%	18.79%	0.35%
W/C, Public Liability & Property Damage Insurance	8.00%	8.00%	0.00%
Subtotal	72.15%	72.27%	0.12%

Source: OIG generated using data provided by FEC.

³ The sum of the rates in these tables may have slight rounding differences.

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Group 4 - General and Administrative Employees⁴

Labor Surcharge Classification	Approved 2023 Rate	Submitted 2024 Rate	Rate Change (2023-2024)
Sick Pay	1.29%	1.15%	-0.15%
Holiday & Vacation Pay	8.54%	10.03%	1.49%
Other Paid Absences	2.28%	0.14%	-2.13%
Bonus	8.61%	2.66%	-5.95%
Payroll Taxes	25.71%	24.28%	-1.43%
Health and Welfare	19.20%	19.29%	0.09%
W/C, Public Liability & Property Damage Insurance	8.00%	8.00%	0.00%
Subtotal	73.63%	65.55%	-8.08%

Source: OIG generated using data provided by FEC.

We recommend the Department’s Freight and Rail Office review and consider approving FEC’s CY 2024 indirect cost rates for use in billing costs for railroad-highway projects and communicate this decision to the Federal Highway Administration.

⁴ **Note:** Labor surcharge classifications highlighted in yellow indicate significant changes from prior year rates.

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APPENDIX A – Purpose, Scope, and Methodology

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

- Calendar year (CY) 2024 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 2024 indirect rates submitted by FEC and associated records and supporting documentation.

The **methodology** included:

- reviewing relevant regulations:
 - 23 C.F.R. 140.906 (b)(2)(ii) - Labor surcharges (2024);
 - 23 C.F.R. 140.908(e)-Handling Costs (2024);
 - 23 C.F.R. 140.910(a)-Company Owned Equipment (2024);
 - 48 C.F.R. 9904.405-Cost Accounting Standards, Accounting for Unallowable Costs (2024); 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 CY's 2023 and 2024;
 - re-performing rate calculations; and
 - performing comparative analysis in CY's 2023 and 2024 rate data; and
 - corresponding with key staff and reviewing selected work papers prepared internally by FEC.

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APPENDIX B – 2024 Labor Additive Surcharge Rates

Group 2 - Maintenance of Roadway, Equipment, and Signal Employees

Labor Surcharge Classification	Submitted 2024 Rate
Sick Pay	0.14%
Holiday & Vacation Pay	7.98%
Other Paid Absences	2.11%
Bonus	0.50%
Payroll Taxes	23.59%
Health and Welfare	21.69%
W/C, Public Liability & Property Damage Insurance	8.00%
Subtotal	64.01%

Group 3 - Transportation Employees

Labor Surcharge Classification	Submitted 2024 Rate
Sick Pay	0.07%
Holiday & Vacation Pay	9.37%
Other Paid Absences	10.00%
Bonus	0.49%
Payroll Taxes	25.55%
Health and Welfare	18.79%
W/C, Public Liability & Property Damage Insurance	8.00%
Subtotal	72.27%

Group 4 - General and Administrative Employees

Labor Surcharge Classification	Submitted 2024 Rate
Sick Pay	1.15%
Holiday & Vacation Pay	10.03%
Other Paid Absences	0.14%
Bonus	2.66%
Payroll Taxes	24.28%
Health and Welfare	19.29%
W/C, Public Liability & Property Damage Insurance	8.00%
Subtotal	65.55%

Source: OIG generated using data provided by FEC.

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APPENDIX C – Comparison of CY 2023 and 2024 Indirect Rates

Group 2 - Maintenance of Roadway, Equipment, and Signal Employees

Labor Surcharge Classification	Approved 2023 Rate	Submitted 2024 Rate	Rate Change (2023-2024)
Sick Pay	0.19%	0.14%	-0.05%
Holiday & Vacation Pay	8.58%	7.98%	-0.60%
Other Paid Absences	1.70%	2.11%	0.41%
Bonus	0.56%	0.50%	-0.06%
Payroll Taxes	23.65%	23.59%	-0.06%
Health and Welfare	19.98%	21.69%	1.71%
W/C, Public Liability & Property Damage Insurance	8.00%	8.00%	0.00%
Subtotal	62.66%	64.01%	1.35%

Group 3 - Transportation Employees

Labor Surcharge Classification	Approved 2023 Rate	Submitted 2024 Rate	Rate Change (2023-2024)
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Other Paid Absences	9.97%	10.00%	0.02%
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Subtotal	72.15%	72.27%	0.12%

Group 4 - General and Administrative Employees

Labor Surcharge Classification	Approved 2023 Rate	Submitted 2024 Rate	Rate Change (2023-2024)
Sick Pay	1.29%	1.15%	-0.15%
Holiday & Vacation Pay	8.54%	10.03%	1.49%
Other Paid Absences	2.28%	0.14%	-2.13%
Bonus	8.61%	2.66%	-5.95%
Payroll Taxes	25.71%	24.28%	-1.43%
Health and Welfare	19.20%	19.29%	0.09%
W/C, Public Liability & Property Damage Insurance	8.00%	8.00%	0.00%
Subtotal	73.63%	65.55%	-8.08%

Source: OIG generated using data provided by FEC.

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APPENDIX D – Affected Entity Response



April 16, 2026
Florida Department of Transportation
Office of Inspector General

Kristofer B Sullivan

Cc: Joseph Gilboy
Barbara Brown-Walton
Nicholas Cooper
Cory Barker

Re: Florida East Coast Railway 2024 Indirect Rates

This letter is with regard to the 2024 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 Guerrero Diaz Mercado', written over a horizontal dashed line.

Genaro Guerrero Diaz Mercado
SVP & Chief Financial Officer

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APPENDIX E – Management Response

On May 21, 2026, the OIG received an email response from Daniel Fetahovic, Freight and Rail Manager, indicating they concurred with the findings, and the Freight and Rail Office did not have a formal response.

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DISTRIBUTION

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Daniel Fetahovic, Manager, Freight and Rail Office
Kelli Phillips, Rail Safety and Operations Administrator
Holly Cohen, Freight and Rail Planning Administrator

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Leighanna Cole, Director of Compensation and Benefits, Florida East Coast Railway
Yvonne Lacount, Manager, Compensation and Benefits, Florida East Coast Railway

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PROJECT TEAM

Engagement was conducted by:
Cory Barker, 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 using The Institute of Internal Auditors' *Global Internal Audit 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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OR PEOPLE FOR
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FOR FINANCIAL GAIN.



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A BENEFIT TO
"LOOK THE OTHER WAY."



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OR MISMANAGEMENT.

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