

Financial Accounting

BDO Buys \$300 Million CPA Firm as Accounting Deals Race Ramps Up

Sept. 17, 2025, 9:00 AM EDT

BDO USA P.C. said Wednesday it will acquire Horne LLP, expanding its footprint in the Southeastern US along with its state and local government practice and creating a \$3.2 billion combined accounting and advisory firm.

The stock deal with Horne, a top 40 firm, is scheduled to close in November. Additional terms weren't disclosed.

The expansion, the largest in BDO's history, will add 1,300 employees to its roster and positions the firm to challenge Baker Tilly for its rank as the sixth-largest US firm by revenue.

Horne, with nearly \$300 million in revenue, specializes in supporting state governments with distributing disaster recovery funds and also focuses on the health care and construction industries.

The deal is just the latest to shuffle the 10 largest firms in the US amid a wave of private equity deals and mergers among peers as firms jockey to lock in market share and invest in technology.

Unlike many of its competitors that took on private equity deals, BDO created an employee stock ownership plan that over time will own the entire firm. The retirement plan gives front-line staff and principals a stake in the business and frees up cash thanks to the plan's tax benefits.

The firm is pursuing several more deals, said Wayne Berson, the CEO of BDO who is set to retire next year.

"It's a good deal for both sides," Berson said of Horne. "It certainly takes advantage of everything we aimed for when we did the ESOP. This is what we've been looking for."

Horne CEO and managing partner Rusty Butcher said BDO's structure rewarding staff was critical in setting it apart from others that sought to cut deals with his firm. Horne's staff and clients will also benefit from BDO's resources and technology, Butcher said.

"We wanted to make sure that we had an opportunity for our team members to thrive. We really value the team, want to make sure that they feel like they're taken care of and in a spot where they can be successful," Butcher said.

Butcher will join BDO's board and will be a principal at the firm helping to support the transition, he said.

BDO plans to create a subsidiary to run the disaster recovery practice, a roughly \$200 million service line operating across the country and in Puerto Rico.

The combination also expands BDO's geographic reach beyond its southern hub in Florida into seven southern and southeastern states, as well as Washington, DC and Puerto Rico.

To contact the reporter on this story: Amanda Iacone in Washington at aiacone@bloombergtax.com

To contact the editors responsible for this story: Benjamin Freed at bfreed@bloombergindustry.com; Amelia Gruber Cohn at agrubercohn@bloombergindustry.com

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A Mississippi-based consulting firm hired to figure out Florida's insurance company financial rating conundrum

Horne LLP, based in Ridgeland, Mississippi, was hired in Florida in early November after submitting a bid to manage a Department of Financial Services study on alternatives to the current carrier ratings system. The ratings issue arose earlier this year after the Demotech rating firm, which scores the stability of the majority of Florida property carriers, announced that it was on the cusp of downgrading or withdrawing the ratings for as many as 16 insurers.



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That sent state insurance officials into overdrive, condemning Demotech for what the officials said was a failure to adhere to its own criteria. Regulators began searching for alternatives, and Florida's Joint Legislative Budget Commission in September sent state insurance officials to hire a consultant to explore options.

In October, a request for qualifications was issued. Two firms, Horne LLP and Alvarez & Marsal, an international consulting firm based in New York, submitted the only two proposals. The contract, for \$1.375 million, was awarded to Horne (<https://facts.fldfs.com/Search/PurchaseOrderDetails.aspx?AgencyId=430000&PONo=C0DC3C&Tab=1>). Although state officials have not provided details on why Horne won the bid, it's probably because the firm's rates were significantly lower than Alvarez', those familiar with the process said.

Since then, reports have surfaced that state auditors in Louisiana and West Virginia have questioned Horne's involvement with or management of multimillion-dollar projects in those states. The Advocate newspaper in Baton Rouge, Louisiana, reported Nov. 18 (https://www.theadvocate.com/baton_rouge/news/politics/state-seeks-probe-into-improper-covid-relief-payments/article_197b78e2-6791-11ed-b0ff-73090bc703d3.html) that the Louisiana legislative auditor's office has been asked to investigate whether Horne employees improperly received some of the \$147 million COVID-19 homeowners' relief fund that the consulting firm was hired to manage.

The audit found that something didn't look right, officials said.

A Louisiana official told the Advocate that the Horne employees involved were removed and that the state is sticking with Horne on the project.



"We've been satisfied with their performance and particularly satisfied with management's response to this problem," said Louisiana's commissioner of administration, Jay Dardenne. "We're very happy with their performance other than this one incident."

Florida's Department of Financial Services "is aware of this issue and will monitor the situation closely," said DFS Communications Director Devin Galetta.

He noted that Florida law and regulations also have built-in mechanisms for mitigating fraud risks within vendor contracts. "It's important to note that the state of Louisiana has been satisfied with the performance of this vendor and particularly satisfied with management's response to the allegation," Galetta said.

Florida consultant Jack Nicholson, the former chief operating officer for the Florida Hurricane Catastrophe Fund and a member of the Horne team that is working on the ratings study, said he was unaware of the article or the audit.

The company had no comment on the news report, a spokesperson said.

In West Virginia in 2018, a state auditor found that a contract with Horne, potentially worth as much as \$18 million, had not been properly bid, according to a [West Virginia news report \(https://wvmetronews.com/2018/11/18/auditors-office-questioned-6-7-million-check-to-flood-consultant/\)](https://wvmetronews.com/2018/11/18/auditors-office-questioned-6-7-million-check-to-flood-consultant/). The West Virginia governor's office responded that the contract, to oversee a flood-relief program, was let under an emergency provision in an effort to speed up long-delayed disaster payouts, and had met state and federal regulatory requirements.

After the controversy broke, Horne was paid \$6 million, but further payments and a contract extension were halted, the report noted.

And in Alabama, the federal government in February of this year ended up clawing back more than \$42 million from a statewide program managed by Horne. The program was too slow in providing the federal COVID-related rental assistance, according to an Alabama news report (<https://www.al.com/news/2022/02/alabama-losing-millions-in-federal-rental-assistance-due-to-delays.html>). Horne completed its \$9.4 million contract on the project but the program had distributed just about a fourth of the funds that were available.

Horne declined to comment to the news outlet, but other Alabama officials said that many applications were rejected as fraudulent, and that vetting applicants was a complex, time-consuming process. At least four other states had contracted with Horne on similar rent-relief disbursements, and delays have been reported.

Horne began as an accounting firm more than 50 years ago in Mississippi and it has expanded to 11 other states, including Florida. It came to be involved in the bid for the Florida insurance rating study after Nicholson said he and others put a team together.

The initial consulting firm was Tallahassee-headquartered Thomas Howell Ferguson, CPAs. After Ferguson's leadership decided it didn't have the depth in that type of consulting, the project was transferred to Horne, Nicholson explained.

Part of the state's directive in issuing the RFQ was that the consultant should survey all Florida P/C insurers, as well as rating firms and the secondary mortgage lenders – Fannie Mae and Freddie Mac.

But the survey sent by Horne to carriers already has met with opposition from some insurance executives who worry that their answers could be made public under Florida's broad open-records laws.

"If I were a carrier I wouldn't answer it," said one insurance industry executive.

The [SurveyMonkey questionnaire \(https://www.surveymonkey.com/r/HPJGTx9\)](https://www.surveymonkey.com/r/HPJGTx9) asks insurance company officials if they had received a letter from Demotech in June suggesting they would soon be downgraded; if they are satisfied with Demotech; what they think of DFS' plan to identify an alternative to Demotech; among other matters.

A preliminary report from Horne is due Jan. 7, Nicholson said. That report may keep survey responses anonymous, but it's possible that an open records request could eventually produce insurers' responses and emails, with names of company respondents, some have suggested.

The response from insurers has so far been underwhelming, industry activists said.

One focus of the ratings issue study, according to the survey and Nicholson, is to examine the viability of a state-run rating agency, perhaps overseen by DFS or the state Office of Insurance Regulation. The burning question there is, "What will it take for Fannie Mae and Freddie Mac to accept the credibility of such an agency?"

The mortgage-purchasing firms generally require that federally backed mortgages be insured by carriers that are favorably rated by a recognized rating firm, such as Demotech, AM Best or KBRA. It's not clear what Fannie and Freddie would think of a nascent agency run by a state government that arguably has a vested interest in keeping more insurers in business.

Nicholson said Wednesday that Horne was still working to secure a meeting with Fannie and Freddie officials.

Some of the Horne recommendations will depend on what actions the Florida Legislature takes at a special session on insurance and property taxes, set for Dec. 12-16. If lawmakers take further steps to limit claimants' attorney fees and reduce insurers' litigation costs, it may be possible that "rating agencies will be able to give them a rating based on their real strength," without the weight of millions of dollars in legal expenses that have been shown to be far greater in Florida than in other states, Nicholson said.

Another option the report may examine: the effect of providing more state-backed reinsurance, which could potentially satisfy the mortgage lenders. Another: allowing insurers to set up a 100% pass-through of losses to reinsurers, international firms that may already have a

Skip to ~~starting~~ financial rating, Nicholson said.

Some critics, including the Insurance Information Institute's Mark Friedlander, have called the idea of exploring alternatives to Demotech a waste of time and money. Other rating firms are just as likely to downgrade struggling insurers, given Florida's litigious environment, and Fannie Mae and Freddie Mac are unlikely to accept a state-run rating scheme, he said recently.

Former Florida Insurance Commissioner Kevin McCarty also weighed in on the criticism of the Demotech ratings.

"The reality is that many Florida insurers are currently at risk of being downgraded," McCarty wrote in an opinion piece in the South Florida Sun Sentinel in September. "That would be true regardless of which rating company was evaluating their financial condition."

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Was this article valuable?

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WRITTEN BY

William Rabb

Rabb is Southeast Editor for Insurance Journal. He is a long-time newspaper man in the Deep South; also covered workers' comp insurance issues for a trade publication for a few years.

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Florida Consultant on

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Horne LLP Under Fire Again

Jackson Free Press

Tuesday, March 16, 2010



File Photo

Mississippi Public Service Commissioner Brandon Presley said he wants Entergy to reimburse rate-payers with checks for offenses found in a Dec. 9 FERC ruling, rather than credits to monthly bills.

Jackson accounting firm Horne LLP faces criticism for the second time in two months after a Feb. 18 audit by the Department of Homeland Security's Office of Inspector General reported that the company billed Mississippi Emergency Management Agency an excessive amount of \$7,751,445 for services that included paying employees up to \$109 an hour to scan documents.

The Feb. 18 report does not state the entire amount MEMA paid Horne LLP received for services, but lists only the "excessive charges" of \$7.7 million.

The audit joins accusations from the Mississippi Public Service Commission that Horne LLP did not deliver on its \$1 million contract with the PSC to analyze fuel purchases made by Entergy Mississippi before a Jan. 15 deadline.

"... Based on a judgmental sample of contractor invoices in 2007, 2008, and 2009, we determined that there was an average of 11 non-supervisory personnel engaged in (document scanning.). The hourly labor rate differences between the Recovery Analyst and Administrative personnel positions ranged from \$87 to \$109 during the contract period of January 9, 2006 through June 30, 2009. Using these differences, we calculated that the contractor billed MEMA \$7,751,445 of excessive charges for the 11 personnel who provided

document management services. Therefore, we question the \$7,751,445 as identified in the following table," the report stated.

Horne LLP Marketing Director Pam Holmes said the company could not comment on the audit.

"Given the contract that we have with MEMA, we're not able to comment on anything related to the contract," Holmes said this morning. "I'd like to help you, but that's how our contract reads."

The audit also showed overpayments totaling \$9.5 million to other MEMA sub-grantees for emergency work projects, unremitted interest of \$987,000 earned on FEMA advances, and insufficient procedures for monitoring both contractor travel costs and corrective action on audit findings.

MEMA Executive Director Thomas Womack responded to auditors last October saying that MEMA officials did not concur with the OIG's conclusion regarding the high cost of Horne LLP's scanning. Womack claimed that the contractor's proposal made clear that MEMA and the contractor "specifically agreed and intended that analysts would perform the important function of reviewing and organizing documents loaded into the document management database."

The OIG disagrees, arguing in its report that its review of the contract and supporting documents "did not disclose any reference to an oversight analyst performing scanning and coding duties." The audit conclusion, the OIG states, "remains unchanged."

Womack told the Jackson Free Press today that the OIG is oversimplifying the description of the duties of the Horne employees in question.

"They did much more than take this stack of documents and feed it through a scanner. They had to organize the documents by the different types of projects. A local government could potentially have up to 200 different projects, some for overtime costs, and some for police and fire, and dozens of different types of repair or replacement projects. You had to make sure that the documents were tied to a specific project and that they were organized in a logical format, so you could retrieve them in good time," Womack said, adding that the cost of the labor was "consistent with what the federal government pay for similar services."

The OIG recommends MEMA demand that the subgrantees repay \$9.5 million to the state treasury for use in other projects. It also recommends MEMA work with the state treasury office to repay interest earned on the misspent money, and requires the state agency to devise procedures to ensure subgrantees make corrective action on audit findings.

The PSC selected Horne LLP in a no-bid contract last year to cross-compare potential fuel purchases the power company made from independent power producers and its affiliates, in order to ensure that Entergy Mississippi was buying the cheapest fuel available and not overcharging ratepayers for fuel purchases. The PSC voted to pay Horne LLP at a March 2 meeting, even though PSC Chairman Brandon Presley criticized the company for not delivering on its contract.

"They represented to us that the audit would be no problem. We made it abundantly clear that we were looking for a cross-comparison of fuel purchases. Originally their contract was not supposed to exceed \$780,000. Then they came back later and said because of Entergy's lawyers and their non-responses to audit requests it goes up to \$1 million," said Presley, who voted against Horne LLP's invoice at the March 2 meeting. "The commission basically gave them a blank check for what I consider a wasted audit report."

Horne CPA partner Ann Cleland said at a January PSC hearing that Horne's failure to deliver fuel-purchase comparisons arose from Entergy Mississippi's slow submission of fuel-purchase transactions.

"We need to say we are 99 percent sure of the (fuel purchase) transactions," Cleland said at the January hearing. "That type of confidence level requires details on transactions. (Entergy told us) that the information we were asking for was generally maintained by the system operators and that they generally did not maintain those transactions in a format that was readily audible."

Entergy attorney Jeremy Vanderloo told commissioners in January that his company needed more time to compile the transcripts.

Presley said rate-payers will eventually foot the bill for the PSC audit.

"The fact remains that we've misspent \$1 million. The power companies pay them for the audit, but you can bet that bill is going to come back to the rate-payers. Entergy's not going to say 'it's our fault the audit didn't deliver, so we'll just eat the cost.' They're going to come get that money back from the rate-payers," Presley said.

Horne LLP's office is located in Ridgeland. The firm has 13 offices in Mississippi, Tennessee, Alabama, Louisiana, Texas and Arizona.

Previous Comments

ID

156759

Comment

Where was I when the \$109/hr. scanning job was available?

Author

golden eagle

Date

2010-03-16T13:43:04-06:00

ID

156767

Comment

LOL, If I am understanding correctly they had \$7.7 million in over charges on what was supposed to have been a contract for less than a million dollars? Wow, that is some kinda fancy accounting.

Author

WMartin

Date

2010-03-16T16:42:33-06:00

ID

156769

Comment

WMartin, The \$1 million and the \$7.7 million "overcharge" are not related. (Unless I am using fancy reading comprehension) The \$780,000 bill stems from a contract dating back to last year. The \$7.7 million dollar charge dates back to 2006. Golden Eagle, "Scanning documents" at a Kinko's and scanning documents as an accountant are two separate entities. At Kinko's, you put paper into a machine. I think we all know the drill. Scanning documents as an accountant entails reviewing thousands of financial documents, performing data analysis, reconciling bank statements, etc. It is entirely plausible for auditors to earn \$109/hr. You should see the salaries that 5+ year auditors make in DC. It is unreal. If you want this \$109/hr. job, go to a four-year university, major in accounting, complete your masters. Then start your CPA. See you in class.

Author

jbreland

Date

2010-03-16T21:48:04-06:00

ID

156779

Comment

Thanks Jbreland, I didn't notice in my first read through that the article was discussing two different contracts with two different entities. I guess I should slow down a bit while reading. :-P

Author

WMartin

Date

2010-03-18T06:12:57-06:00

ID

156782

Comment

Jbreland, your point is very well taken relative to how one can successfully become a CPA and qualify for a job as an accountant; performing scanning of documents which require data analysis, reconciling statements, etc. This was not the case: Many of the workers were John Q. Public employees and without the credentials for that pay grade. It is so unfortunate that the victims of Katrina and Rita did not benefit and far too many continue to be without the finances to rebuild. Initially, the country had tons of fund-raisers. In Jackson, there were people with buckets collecting money at intersections. If all funds had been used for victims, there would be "Mission Accomplished." This article represents one company's possible fraudulent activities: This is just one drop in a BIG BUCKET.

Author

justjess

Date

2010-03-18T09:36:36-06:00

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