State and Local Fiscal Recovery Funds (SLFRF) Revenue Loss: Compliance & Audit Readiness Guide

This guide is intended as a companion to the Compliance Requirements Under the Revenue Loss Provision. While that document provides a detailed mapping of applicable Uniform Guidance sections and their regulatory basis, this document translates those requirements into plain-language, practitioner-oriented guidance for small municipalities. The two documents are designed to work together: recipients seeking the regulatory foundation for any requirement in this guide should consult the Compliance Requirements Under the Revenue Loss Provision.

Revenue Loss Defined

The Revenue Loss category, officially designated as Revenue Replacement under Expenditure Category 6.1 of the SLFRF program, though the terms are often used interchangeably, is one of the ten major expenditure categories under the American Rescue Plan Act (ARPA) State and Local Fiscal Recovery Funds (SLFRF) program. It was established to address the reality that the COVID-19 pandemic caused many governments to experience a significant loss of general revenue: the tax and fee income that funds everyday public services such as parks, roads, public safety, and administrative operations. Under this category, Treasury permits recipients to presume that up to $10 million in SLFRF was needed to replace lost revenue, without requiring recipients to calculate actual losses.[1] This means municipalities can use these funds for any traditional government services, such as staff salaries, facility maintenance, public safety equipment, and more, as a direct replacement for local revenue they would otherwise have spent.

This category is far more flexible than others, such as those for public health or infrastructure, which require detailed eligibility justifications and evidence of COVID-19 impact. However, greater flexibility does not mean no accountability. A defined set of federal requirements, including financial management, internal controls, record retention, and cost principles, continues to apply under Revenue Loss. Recipients are expected to maintain audit-ready documentation and comply with the applicable sections of 2 CFR Part 200 (Uniform Guidance).[2]

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[1] U.S. Department of the Treasury, Compliance and Reporting Guidance: State and Local Fiscal Recovery Funds, Version 10.0, April 2025.

What Makes Revenue Loss Different?

SLFRF Revenue Loss	Other SLFRF Categories
Can be used for nearly any general government service	Limited to specific uses like public health, water infrastructure, etc.
Does not need to prove harm or impact from COVID-19	Must justify the use of funds as responding to pandemic-related needs
Federal procurement standards (2 CFR §§200.317–327) do not apply; however, most other Uniform Guidance requirements—including financial management, internal controls, record retention, and cost principles—continue to apply	Full set of Uniform Guidance requirements applies, including federal procurement standards, cost principles, performance tracking, and subrecipient monitoring
Use of funds in the revenue loss eligible use category does not give rise to subrecipient relationships	Subrecipient monitoring and compliance are required

Note: *The full federal procurement standards under 2 CFR §§200.317–327 do not apply under Revenue Loss. However, local procurement procedures must still be followed, and all costs must remain reasonable and free from conflicts of interest. The applicable procurement requirements for Revenue Loss, including the relevant CFR citations, are detailed in the companion Compliance Requirements Under the Revenue Loss Provision guide and the ARPA SLFRF Procurement Guidance document.*

Audit-Ready Practices for Revenue Loss Funds

Even with more flexibility, the following practices apply under Revenue Loss. Each item below is labeled to indicate whether it is a federal **Requirement** (mandated by federal law or Treasury guidance) or a **Best Practice** (strongly recommended to support compliance and audit readiness, but not independently required by a specific federal citation):

1. Follow Your Established Local Spending Procedures

Requirement: 2 CFR §200.403(a) & Final Rule 2022 FAQ 13.15[3]

- Funds should be spent just as local budget funds would be.
- Existing procurement and approval procedures should be used.

2. Use Strong Internal Controls

Requirement: 2 CFR §200.303[4]

- Separate financial duties: The individual approving the spending should not be the same individual issuing the payment.
- Track which individuals approve, spend, and review each transaction.
- If staff is limited, document the overlap and how risk is reduced (e.g., through third-party oversight).

3. Keep Records for Five (5) Years

Requirement: 2 CFR §§200.334–338[5]

- Maintain receipts, invoices, bank records, meeting minutes, policies, and related documentation.
- Create a digital folder or binder labeled "SLFRF Revenue Loss" with all records organized by project or expenditure type.

4. Only Spend on Allowable and Reasonable Costs

Requirement: 2 CFR §200.404(e)[6]

- Costs must be reasonable. Ensure costs are necessary for the program purpose, consistent with written policies, in line with market prices and quotes, acquired using sound business practices (and competition when required), free of conflicts, and not a significant deviation from standard practices without justification.
- Document reasonableness with brief price comparisons or quotes, a cost/price analysis when thresholds require it, and an approval or memo to file explaining timing/quantity and alternatives considered.

Note: Even when Uniform Guidance procurement rules do not apply under Revenue Loss, reasonableness still does.

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[3] 2 CFR §200.403(a); U.S. Treasury, Final Rule FAQ #13.15, 2025.
[4] 2 CFR §200.303, Internal Controls.
[5] 2 CFR §§200.334–338, Record Retention and Access.
[6] 2 CFR §200.404(e), Reasonable Costs.

5. Prepare for a Single Audit (If Applicable)

Requirement: 2 CFR §200.514[7]

- The Single Audit threshold depends on your organization's fiscal year:
  - If your fiscal year began **before October 1, 2024**: a Single Audit is required if total federal expenditures exceed **$750,000**.
  - If your fiscal year began **on or after October 1, 2024**: a Single Audit is required if total federal expenditures exceed **$1,000,000** (per OMB's 2024 update to 2 CFR §200.501).
- These thresholds apply to *total* federal expenditures across all federal awards, not just SLFRF. If the threshold is met, auditors will review proper use of funds, financial controls, and documentation.
- An Alternative Compliance Examination Engagement (ACEE) is available for eligible SLFRF recipients that do not otherwise require a full Single Audit. The ACEE is submitted directly to Treasury, not to the Federal Audit Clearinghouse. Recipients should consult Treasury guidance and the MTAP website for details.

The Revenue Loss (Revenue Replacement) category offers meaningful flexibility, but it does not eliminate federal accountability obligations. Recipients are expected to treat these funds with the same discipline applied to any general government expenditure, following local policies, maintaining thorough documentation, and ensuring that spending is transparent, reasonable, and supportable upon audit. Implementing the practices in this guide will help municipalities confidently manage their SLFRF funds through program completion and closeout.

This guidance is based on current information from the U.S. Department of the Treasury and is subject to change. It does not constitute legal advice. The State of Maryland and Hagerty Consulting Inc. are not responsible for any compliance decisions made based on this document. As a recipient of federal funds, each unit of government is responsible for the administration and compliance of Fiscal Recovery Funds and other federal funding.

[7] 2 CFR §200.514, Audit Requirements.

Appendix A: Revenue Loss Compliance Checklist

This checklist summarizes key compliance and best practice elements discussed throughout the guide. Each item is labeled to indicate whether it is a federal **[R] Requirement** (mandated by federal law or Treasury guidance) or a **[BP] Best Practice** (strongly recommended to support compliance and audit readiness). It is intended to help SLFRF recipients, particularly small municipalities, stay organized, maintain audit readiness, and ensure consistent implementation of federal requirements when using funds under the Revenue Loss Expenditure Category. It is best used in conjunction with internal policies and procedures and can serve as a working document during project implementation and closeout.

Governance & Internal Controls

- ☐ [R] Local procurement policies are documented and consistently applied to SLFRF Revenue Loss expenditures.
- ☐ [R] Approval authority levels, or thresholds, are established (e.g., supervisor for $5,000+, council for $25,000+) and followed.
- ☐ [R] Segregation of duties exists between those who approve, process, and reconcile payments.
- ☐ [R] When staffing limitations prevent full segregation, risk mitigation steps (e.g., third-party oversight or post-transaction review) are documented.
- ☐ [R] All financial roles and responsibilities related to SLFRF are clearly assigned and communicated.
- ☐ [R] Internal control policies and procedures are written and accessible to staff.
- ☐ [BP] An internal reporting schedule is in place to regularly review SLFRF activity.

Allowable Costs & Documentation

- ☐ [R] All expenditures fall within the definition of “government services” under the Revenue Loss provision.
- ☐ [BP] A centralized, clearly labeled folder or system (“SLFRF Revenue Loss”) is maintained for organizing supporting documentation.
- ☐ [R] Each purchase includes supporting documents such as invoices, receipts, approvals, and payment records.
- ☐ [BP] Written justifications (e.g., memos to file) are prepared for non-routine or high-cost purchases.
- ☐ [R] Price comparisons, quotes, or market research are retained to demonstrate cost reasonableness.
- ☐ [BP] Meeting minutes, budget documents, or council resolutions referencing Revenue Loss expenditures are stored.
- ☐ [BP] A capital asset log is maintained for items purchased over the capitalization threshold (e.g., vehicles, equipment).

Audit Readiness

- ☐ [R] Annual federal expenditures have been calculated to determine if a Single Audit is required.
- ☐ [R] If applicable, Single Audit preparation includes coordination with the auditor and collection of documentation.
- ☐ [R] Documentation meets the five-year retention requirement from the date of final expenditure or fund return.
- ☐ [R] Subrecipient monitoring is not required under Revenue Loss (unless subawards are issued); this is documented.
- ☐ [R] Compliance with Treasury's terms and conditions (e.g., SAM.gov registration, reporting deadlines) is monitored and documented.
- ☐ [BP] Any communication with Treasury or audit responses is recorded and archived.