



Federal Reserve Bank Independent Audit Report

Reporting Period: June 2019 - June 2020

September 1, 2020

Minnesota Department of Revenue

600 Robert St. N,

St. Paul, MN 55101

651-556-6003

revenue@state.mn.us

<https://www.revenue.state.mn.us/minnesota-department-revenue>

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September 1, 2020

The Honorable Representative John Lesch
Chair, Judiciary Finance and Civil Law Division
563 Rev. Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

The Honorable Representative Peggy Scott
Republican Lead, Judiciary Finance and Civil Law
Division
335 Rev. Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

The Honorable Senator Warren Limmer
Chair, Judiciary and Public Safety Finance and Policy
Committee

3221 Minnesota Senate Building
St. Paul, MN 55155

The Honorable Senator Ron Latz
Ranking Minority Member, Judiciary and Public Safety
Finance and Policy Committee
2215 Minnesota Senate Building
St. Paul, MN 55155

Dear Committee Chairs:

Minnesota Statute § 270B.162 authorizes the Commissioner to disclose return information to the Federal Reserve Bank of Minneapolis (FRB) for use in a research study of the impact of minimum wage ordinances adopted by the City of Minneapolis and other municipal jurisdictions pursuant to a data sharing agreement with the Department of Revenue. Among the provisions of the agreement is the requirement that the FRB conduct an annual independent audit to verify its compliance with the agreement and provide a copy to you.

Since no data had been transmitted to the FRB by June 30, 2020 there is no independent annual audit to provide the Minnesota Legislature. Because there is no 2020 audit report from the FRB, the Department of Revenue is providing this update to the Minnesota Legislature. Included with the report are copies of the statute and data sharing agreement between the Department of Revenue and the Federal Reserve Bank of Minneapolis.

Sincerely,



Eric Willette
Director, Tax Research

Minnesota Statute § 270B.162 authorizes the Commissioner to disclose return information to the Federal Reserve Bank of Minneapolis (FRB) for use in a research study of the impact of minimum wage ordinances adopted by the City of Minneapolis and other municipal jurisdictions pursuant to a data sharing agreement that contains several statutorily required elements. One of these elements is:

“arranging and providing for an independent annual audit to verify the Federal Reserve Bank of Minneapolis's compliance with the data-sharing agreement, including a requirement that the results of each independent annual audit be submitted to the chairs and ranking minority members of the legislative committees with jurisdiction over civil law and data practices by June 30 each year.”

Since no data had been transmitted to the FRB by June 30, there is no independent annual audit to provide the Minnesota Legislature. In lieu of a 2020 report from the FRB, the Department of Revenue prepared the following update on the Agreement.

1. Minn. Stat. § 270B.162 went into effect May 31, 2019 as enacted in Laws of Minnesota 2019, First Special Session chapter 6, article 11, section 1. A copy of the statute is enclosed.
2. On May 21, 2020, the department and FRB executed the data sharing agreement, which the statute requires be in place before any taxpayer information may be shared with the FRB. A copy of the Agreement is enclosed.
3. The Agreement requires FRB to safeguard taxpayer information by among other provisions:
 - Restricting data access to an identified roster of individuals.
 - Prohibiting duplication or redisclosure of the data.
 - Establishing and maintaining a log of data files received from the department from creation through destruction.
 - Providing physical and logical protection against unauthorized access to the data.
 - Maintaining a data audit trail that records all read, write, move, and delete events.
 - Obtaining and paying for an annual independent audit to verify FRB compliance with the Agreement.
4. A physical inspection of the room and security controls by the department before the transfer of data was delayed due to COVID-19 work restrictions. As an alternative, the FRB provided the department video documentation of the physical controls in place to restrict access to the room where taxpayer information will be stored and used in conjunction with the minimum wage study.

5. Transmittal of taxpayer information to FRB will be through a secure file sharing system controlled by the department and administered by Revenue Tax Research personnel.

All future independent annual audit reports to the Minnesota Legislature will be provided by the FRB.