



441 G St. N.W.
Washington, DC 20548

April 30, 2024

The Honorable Sheldon Whitehouse
Chairman
The Honorable Charles E. Grassley
Co-Chairman
Caucus on International Narcotics Control
United States Senate

Opaque Ownership in Aircraft Registrations: Responses to Questions for the Record

Thank you for the opportunity to testify before the Caucus on International Narcotics Control at the April 9, 2024 hearing entitled, “Opaque Shell Companies: A Risk to National Security, Public Health, and Rule of Law.” We also appreciate the opportunity to provide the caucus with additional information in response to questions for the record. Our responses can be found in the enclosure to this letter.

Please contact me with any further questions.

Rebecca Shea

Rebecca Shea
Director, Forensic Audits and Investigative Service

Enclosure

**Questions for the Record from Senator Charles E. Grassley
U.S. Senate Caucus on International Narcotics Control
“Opaque Shell Companies: A Risk to National Security, Public Health, and Rule of Law”**

1. The Federal Aviation Administration (FAA) registration fee has remained the same since 1964 at \$5. In 1993, the GAO found the FAA had left \$6.5 million on the table by not increasing its fees with inflation. 31 years after that finding, the FAA registration fee is still just \$5.

a. Do you have an updated estimate on how much money the FAA has left on the table by failing to match its fees with inflation?

We do not have an updated estimate for our 1993 analysis, which involved a calculation of revenue collected to costs incurred.

However, adjusting for inflation alone, the \$5 fee in 1964 would be nearly \$49 in 2023 dollars. Assuming about 34,000 registrations or renewals per year, a \$49 fee would have brought in approximately \$1.5 million in additional fee revenue in 2023 compared to the \$5 fee. This calculation does not include lost revenue associated with a fee commensurate with the cost of operations.

Additionally, in 2023, FAA expanded the duration of the aircraft registration from three years to seven years. As a result of the longer registration duration, FAA's expected fee revenue, regardless of the fee charged, will likely drop by more than 50 percent.

b. The FAA has known of this issue since 1993. Are you aware of any effort by the FAA to adjust this fee, and if so, by how much?

FAA has not raised the fee and has taken limited actions to remedy the situation. In March 2020, we recommended that FAA increase aircraft registration and dealer fees to ensure the fees are sufficient to cover the costs of FAA efforts to collect and verify applicant information while keeping pace with inflation.¹ Because of the delay in implementing this recommendation and significant associated revenue loss, we designated this as a priority recommendation for the Department of Transportation in 2021.

In February 2024, FAA officials told us that they created a registry fee cost model. According to FAA, the model uses a formula-based approach to calculate cost rates for fee activities, though FAA did not identify a specific amount for a new fee. FAA further informed us that it was evaluating next steps for this cost model, including rulemaking. However, by not raising the fee to cover current costs as FAA considers rulemaking for fee structure on future costs, the agency remains noncompliant with its own policies in this regard. We will continue to monitor FAA's actions on this recommendation.

¹GAO, *Aviation: FAA Needs to Better Prevent, Detect, and Respond to Fraud and Abuse Risks in Aircraft Registration*, [GAO-20-164](#) (Washington, D.C.: Mar. 25, 2020).

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2. The FAA says it generally relies on folks registering airplanes to self-certify that they are allowed to register those planes.

a. Based on your team’s findings, is self-certification enough?

No. Self-certification alone is not sufficient as a fraud control. In our March 2020 report, we found that FAA’s reliance on self-certification without verification leaves the aircraft registry vulnerable to exploitation by those who wish to circumvent eligibility requirements, disregard safety standards, or pursue criminal activities.² Further, our body of work related to COVID-19 spending fraud illustrates the risks of relying on self-certification as a fraud control.³ Across that work, we found that federal and state agencies, in an effort to disburse funds quickly, relied on self-certification to receive assistance, with resulting fraud losses estimated in the hundreds of billions. Even if program design decisions allow for self-certification, agencies are responsible for designing and implementing control activities to prevent fraud.

b. What sort of culture changes needs to take place at the FAA to tackle the problem? Is legislation needed?

FAA’s primary mission is aviation safety, and the agency aims to achieve that by promoting compliance with laws and regulations. In our March 2020 report, we found that FAA’s approach is one of providing repeated assistance to aircraft owners to come into compliance and that this approach is easily exploited. To mitigate fraud and abuse risks facing aircraft registry, FAA would need to move toward a culture of risk management that extends beyond recognition of safety risks.

FAA took initial steps in managing fraud and abuse risks to the aircraft registry when it conducted a fraud risk assessment and developed an antifraud strategy, implementing three of the 15 recommendations we made to FAA in March 2020. In concert with these three implemented recommendations, FAA needs to commit to managing fraud risks by implementing the remaining 12 recommendations, including two priority recommendations focused on (1) verification of eligibility and information provided by applicants and dealers and (2) increasing aircraft registration fees to cover the costs of FAA efforts to collect and verify applicant information while keeping pace with inflation.

We believe Congressional action, such as the proposed Preventing Terrorist and Narcotic Air Events Act of 2024 by Senator Grassley, would help facilitate needed improvements in FAA’s management of fraud and abuse risks in aircraft registrations.⁴ We will continue to monitor the status of GAO recommendations and provide Congress with updates to use in its oversight of FAA.

² [GAO-20-164](#).

³ GAO, *COVID-19: Insights and Actions for Fraud Prevention*, [GAO-24-107157](#) (Washington, D.C.: Nov. 14, 2023).

⁴ S.4103 — 118th Congress (2023-2024).

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3. Has your office identified other government programs similarly exploited by criminal actors, and if so, what are they?

In general, fraud risk exists wherever there are benefits—monetary or non-monetary, such as N-numbers provided by FAA—and entities that can receive them. As described below, we have identified similar examples related to pandemic relief programs, defense contracting, and federal real property leases.

In May 2023, we reviewed fraud cases charged by the Department of Justice and found that most fraud-related charges in the Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) program involved the use of shell companies or fictitious entities.⁵ Specifically, approximately 72 percent of businesses identified in the fraud cases were alleged to be shell companies or fictitious entities, which would make them ineligible for PPP and COVID-19 EIDL funding. These businesses received nearly \$390 million in PPP and COVID-19 EIDL funds.

- In one example, a fraudster submitted four PPP and 10 COVID-19 EIDL applications for 10 different businesses. Those businesses included one legitimate business, eight shell companies that had no operations or employees, and one fictitious entity. The applications used stolen information and falsified monthly payroll documents and tax forms. The fraudster received over \$100,000 in PPP and over \$640,000 in COVID-19 EIDL funds based on these submissions. The fraudster misused pandemic relief funds for personal expenses including a diamond ring, luxury hotel stays, living expenses, and payments for personal credit cards and student loans. Ultimately, the fraudster pled guilty and was sentenced to 4 years in prison and 3 years of supervised release.

In November 2019, we reported that the Department of Defense faces several types of financial and nonfinancial fraud and national security risks posed by defense contractors with opaque ownership.⁶ For example, opaque ownership can be used to inflate prices paid by the government, bill for work that was not performed, or circumvent set-aside requirements, eligibility, or debarment.

- In one case we reviewed, a domestic shell company allowed a foreign manufacturer to receive contracts that were designated for U.S. manufacturers. As a result, the contractor illegally exported sensitive military data and provided defective and nonconforming parts that led to the grounding of at least 47 fighter aircraft.

In January 2017, we reported that beneficial ownership information was not available for about one-third of the General Services Administration’s high-security leases.⁷ Federal officials who assess foreign investments in the United States and some tenant agencies occupying high-

⁵GAO, *COVID Relief: Fraud Schemes and Indicators in SBA Pandemic Programs*, [GAO-23-105331](#) (Washington, D.C.: May 18, 2023).

⁶GAO, *Defense Procurement: Ongoing DOD Fraud Risk Assessment Efforts Should Include Contractor Ownership*, [GAO-20-106](#) (Washington, D.C.: Nov. 25, 2019).

⁷GAO, *Federal Real Property: GSA Should Inform Tenant Agencies When Leasing High-Security Space from Foreign Owners*, [GAO-17-195](#) (Washington, D.C.: Jan. 3, 2017).

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security leased space told us that leasing space in foreign-owned buildings could present security risks such as espionage and unauthorized cyber and physical access. Nine of the 14 tenant agencies that we contacted were unaware that the space they occupied was in a building that we identified as foreign owned.

- In one example, our review identified that the Federal Bureau of Investigation’s Seattle field office was ultimately owned, through a series of domestic and foreign companies, by foreign owners involved in corruption scandals.