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Narcotics Control, U.S. Senate

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AIRCRAFT REGISTRATIONS

Risks Remain from Efforts to Obscure Ownership Information

Statement of Rebecca Shea
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Accessible Versions

GAO Highlights

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Risks Remain from Efforts to Obscure Ownership Information

Why GAO Did This Study

The U.S. aircraft registry, managed by FAA, maintains information on civil aircraft to facilitate aviation safety, security, and commerce. FAA issues aircraft registrations to individuals and entities that meet eligibility requirements, such as U.S. citizenship or permanent legal residence. Registry fraud and abuse hinders national security and criminal investigations when law-enforcement officials try to identify aircraft and their owners who might be involved in illicit operations.

This testimony discusses (1) how beneficial ownership information can be obscured in aircraft registrations and (2) FAA efforts to implement GAO recommendations to mitigate registry fraud and abuse.

This testimony is based primarily on GAO's March 2020 report on FAA's efforts to prevent, detect, and respond to fraud and abuse risks in aircraft registrations ([GAO-20-164](#)). For that report, GAO reviewed relevant laws, regulations, and FAA policies; reviewed reports, press releases, and court cases that illustrated risks associated with the registry; analyzed aircraft registry data from fiscal years 2010 through 2018 to identify registrations with risk indicators; and interviewed FAA and federal law enforcement officials.

What GAO Recommends

In March 2020, GAO made 15 recommendations to FAA. As of April 2024, FAA addressed three recommendations but needs to take additional actions to implement the remaining 12.

What GAO Found

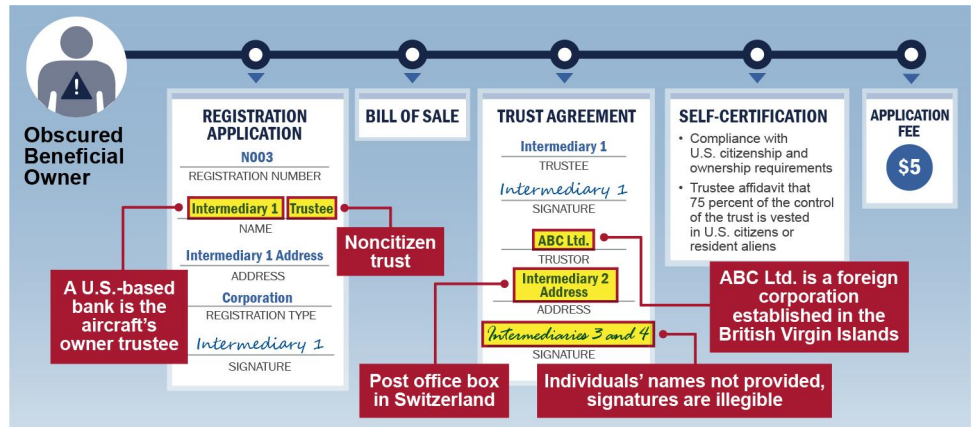
To register civil aircraft with the Federal Aviation Administration (FAA), applicants can provide opaque information on beneficial owners—persons who ultimately own and control the aircraft—resulting in criminal and national security risks through aircraft registry fraud and abuse. Additionally, FAA generally relies on self-certification of registrants' eligibility and does not verify key information.

In a March 2020 report, GAO identified several ways that beneficial ownership in aircraft registrations could be hidden. Specifically, beneficial ownership could be hidden using

- opaque ownership structures, such as shell companies and noncitizen trusts, which are aircraft trusts registered to U.S.-citizen owner trustees with noncitizen trustors;
- intermediaries, which are individuals and entities that facilitate aircraft registration for a fee;
- addresses of registered agents, which are individuals or entities authorized to accept important legal and tax documents on behalf of a business; and
- nominees, which are individuals or entities listed as the owners but in fact acting on behalf of beneficial owners.

The following example illustrates the use of such approaches to obscure the beneficial owner of an aircraft involved in a Malaysian money laundering case. The aircraft, among other assets, was ultimately forfeited to the U.S. government.

Example of Aircraft Registration Using Opaque Ownership Structures and Multiple Intermediaries and Jurisdictions



Sources: GAO analysis of Federal Aviation Administration information; GAO (icons). | GAO-24-107495

FAA took steps to mitigate registry fraud and abuse by implementing three GAO recommendations. Specifically, FAA assessed its fraud and abuse risks; determined the impact and likelihood of those risks and established its risk tolerance; and developed an antifraud strategy. However, 12 recommendations remain open, including key recommendations related to collecting data on individuals and entities to verify identity and eligibility. Without further action by FAA, the aircraft registry remains vulnerable to continued fraud and abuse.

Chairman Whitehouse, Co-Chairman Grassley, and Members of the Caucus:

I appreciate the opportunity to discuss criminal and national security risks associated with aircraft registrations that include opaque information about the beneficial owners—the persons who ultimately own and control the aircraft—as well as the Federal Aviation Administration’s (FAA) efforts to mitigate those risks by better preventing fraud and abuse in the registry.¹

In our March 2020 report, we discussed criminal, national security, and safety implications associated with different methods—such as the use of opaque ownership structures and intermediaries—to obscure beneficial owner information in aircraft registrations.² We also found that, to register civil aircraft, FAA generally relied on self-certification of registrants’ eligibility and did not verify key information, such as identity and ownership.

At the time of that report, FAA’s Civil Aviation Registry processed and maintained publicly available information on approximately 300,000 civil aircraft to facilitate aviation safety, security, and commerce. FAA registers aircraft to individuals, entities, and dealers that meet eligibility requirements, generally related to U.S. citizenship, permanent legal residency, or noncitizen corporation status.³ FAA’s aircraft registry, the largest civil aviation registry in the world, is preferred by aircraft owners for safety, economic, and financial reasons. Accordingly, the integrity of owner information for registry users is important to support these benefits.

The completeness and accuracy of registry data and the transparency of owner information are also relevant to the wide range of users, who rely on aircraft and owner information to

¹Fraud involves obtaining something of value through willful misrepresentation. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary operational practice, given the facts and circumstances.

²GAO, *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).

³In this context, a noncitizen corporation that is organized and doing business under the laws of the United States or a state may register an aircraft if the aircraft is based and primarily used in the United States.

- identify aircraft and owners potentially associated with unlawful activity,
- investigate safety incidents and accidents,
- communicate airworthiness directives and safety notices, and
- facilitate aircraft purchases.

In our 2020 report, we found that the lack of transparency in aircraft registrations created challenges for law-enforcement and safety investigators seeking information about beneficial owners of aircraft to support timely investigations.

We made 15 recommendations to FAA related to fraud and abuse risk management, data collection and verification, aircraft registration and dealer fees, data linkages and access for data analytics, dealer suspension and revocation, and coordination and information sharing with law enforcement. FAA agreed with all recommendations and, to date, has implemented three of them. See appendix I for a full listing of the recommendations.

My comments today summarize key risks and examples associated with opaque beneficial ownership information in aircraft registrations, as well as FAA efforts to mitigate those risks. Specifically, I will discuss the following:

1. How beneficial ownership information can be obscured in aircraft registrations contributing to criminal and national security risks, and
2. FAA efforts to implement GAO recommendations to mitigate registry fraud and abuse.

This testimony is based on our 2020 report and FAA efforts since then to implement our recommendations.⁴ To examine fraud and abuse issues for that report, we reviewed relevant laws and regulations. We interviewed FAA officials and officials from federal law enforcement agencies. We also interviewed selected representatives of aviation industry associations and aircraft registry intermediaries—individuals and entities that facilitate aircraft registrations for others. We analyzed and synthesized a variety of information, including agency reports, press releases, and court cases that illustrated risks associated with the registry. Based on our analysis, we developed case studies for in-depth

⁴[GAO-20-164](#).

review across three categories of risk enabled by fraud and abuse—criminal activity, national security, and safety.

We also analyzed aircraft registry data from fiscal years 2010 through 2018 to identify registrations with risk indicators, as well as sanctions data. More detailed information on our objectives, scope, and methodology for that work can be found in the issued report. For this statement, we also updated the status of FAA efforts to implement recommendations contained in our 2020 report.

We conducted the work on which this statement is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Opaque Information on Beneficial Owners Contributes to Criminal and National Security Risks

Opaque Ownership Structures and Use of Intermediaries, Registered Agent Addresses, and Nominees Provide Opportunities for Fraud and Abuse

In our 2020 report, we identified several ways that beneficial ownership in aircraft registrations could be hidden, contributing to criminal and national security risks through fraud and abuse of

- opaque ownership structures,
- intermediaries,
- registered agent addresses, and
- nominees.

Opaque ownership structures, intermediaries, and registered agents can serve legitimate purposes, but they can also be abused in the context of aircraft registration to disguise potential ineligibility or hide illicit activity. The use of nominees is an invalid means to register an aircraft.

Opaque ownership structures. We identified four types of ownership structures that can be used to register aircraft that can hide the beneficial owner. The four types can be used alone or in combination—(1) limited liability companies (LLC), (2) shell companies, (3) noncitizen trusts, and (4) U.S. citizen corporations using voting trusts. Table 1 describes the four opaque ownership structures, their legitimate uses, and how they can be vulnerable to abuse in the context of the FAA aircraft registry.

Table 1: Features of Opaque Ownership Structures Used in Aircraft Registrations

Opaque ownership structure	Definition	Legitimate use	Potential abuse
Shell companies	Companies that conduct either no business or minimal business	Shell companies may be formed to obtain financing prior to starting operations. In the aircraft ownership context, shell companies may be created to hold title to aircraft for registration purposes.	Shell companies are vulnerable to abuse when used to conceal beneficial owner identity for illicit purposes. ^a According to Federal Aviation Administration (FAA) officials, some aircraft registrations have “stacked” company ownership, when shell companies own each other. Such ownership arrangements can be used for illicit purposes to conceal the identity of foreign-based beneficial owners and can be difficult to detect.
Limited liability companies (LLC)	LLCs are a hybrid of a corporation and a partnership, protecting the owners, who are referred to as members, from some debts and obligations like a corporation and may confer certain tax advantages, like a partnership.	As U.S. companies, LLCs provide a range of services that are essential to the country’s economic system. In the aircraft ownership context, LLCs may be created to hold title to aircraft for registration purposes.	LLCs may obscure beneficial owner information. Depending on the state, at the time of company formation, information on members, who are owners of LLCs, may not be required. LLCs may be abused by those who do not meet the definition of a U.S. citizen or by illicit actors to hide their identity for illicit purposes. Additionally, LLCs may be shell companies, subject to those vulnerabilities. For aircraft registrations, FAA made LLCs a separate registration type on the aircraft registration application in 2018. However, according to FAA officials, LLC corporate structures may change any time after the registration, posing challenges in identifying beneficial owners as part of safety or law-enforcement investigations.

Opaque ownership structure	Definition	Legitimate use	Potential abuse
Noncitizen trusts	Noncitizen trusts are aircraft trusts registered to U.S.-citizen owner trustees with noncitizen trustors.	Companies with complex and changing ownership structures with regard to citizenship may choose to register aircraft using noncitizen trusts to ensure their continued eligibility.	<p>Although trust agreements filed with FAA include trustor information, trustors may be legal entities, which can obscure the beneficial owner of aircraft.</p> <p>Layers of ownership may also obscure trust ineligibility when the trust is actually controlled by noncitizens, even though the documents show that 75 percent of the control of the trust lies with a U.S. citizen trustee.^b</p> <p>Noncitizen trusts may also be abused as a flag of convenience for entities seeking to avoid foreign requirements, such as taxes, or by noncitizen illicit actors to hide their ownership while obtaining access to a U.S.-registered asset.</p>
U.S. citizen corporations using voting trusts	Corporations may use voting trusts to meet requirements as a U.S. citizen for purposes of registering an aircraft.	Voting trusts can be used by foreign corporations, such as airlines, to conduct economic activity in the United States.	<p>Corporations using voting trusts to meet U.S. citizenship requirements may abuse FAA aircraft registration requirements when voting trustees are not independent of the company's stockholders or management. Independence of voting trustees is a requirement for a voting trust to ensure that foreign investor stockholders, as beneficiaries and true owners of the aircraft, do not unduly influence the trustee.^c For example, the voting trust may be abused when a voting trustee is employed by the corporation or the intermediary that established the corporation, exercising control over the voting trustee.</p> <p>Additionally, in cases where corporations are shell companies and not engaged in commercial activity, the ownership structure may be abused as a flag of convenience or by noncitizen illicit actors to hide their ownership while obtaining access to a U.S.-registered asset.</p>

Source: GAO. | GAO-24-107495

^aWe have reported previously about concerns associated with shell companies, as criminals increasingly use them to conceal their identity and illicit activities. See GAO, *Company Formations: Minimal Ownership Information Is Collected and Available*, GAO-06-376 (Washington, D.C.: Apr. 7, 2006).

^bUnder FAA's regulations, if any beneficiary under the trust is not a U.S. citizen or resident alien, each trustee must submit an affidavit stating that the trustee is not aware of any reason, situation, or relationship (involving beneficiaries or other persons who are not U.S. citizens or resident aliens) as a result of which those persons together would have more than 25 percent of the aggregate power to influence or limit the exercise of the trustee's authority. An opaque structure makes it difficult to determine whether the relationships among the parties in the trust make the trust invalid.

^cUnder FAA's regulations, voting trustees must submit an affidavit that represents, among other things, their independence from other parties to the trust agreement, specifically: not a past, present, or prospective director, officer, employee, attorney, or agent of any other party to the trust agreement; not a present or prospective beneficiary, creditor, debtor, supplier, or contractor of any other party to the trust agreement; and not aware of any reason, situation, or relationship under which any other party to the agreement might influence the exercise of the voting trustee's totally independent judgment under the voting trust agreement. An opaque structure makes it difficult to determine

whether that independence is actually in place or whether the relationships among the parties in the trust make the voting trust invalid.

Intermediaries. The four types of opaque ownership structures are often established by intermediaries—individuals and entities that facilitate aircraft registration for a fee. Intermediaries may be individual attorneys, law firms, trust companies, or banks that provide services to individuals and entities wishing to register aircraft in the United States. Such services include

- establishing corporations, including shell companies, and registering them with a U.S. state;
- acting as a director, a manager, or a secretary for such corporations;
- establishing trusts that own aircraft;
- acting as an owner trustee for aircraft trusts; and
- acting as a voting trustee for voting trusts, among other things.

Intermediaries add a layer of opacity to aircraft registrations. Intermediaries may not know, and most are not required to know, the beneficial owners of aircraft they help to register.⁵

Registered agent addresses. Another approach that makes aircraft registrations opaque is when an applicant uses the address of a registered agent—a person or entity authorized to accept important legal and tax documents on behalf of a business—as the applicant’s address. Registered agent addresses, when not accompanied by the owner’s physical address information, provide a layer of anonymity to beneficial owners of aircraft and may mask ineligibility or illicit actors.

For one of the registered agents we were able to interview for our 2020 report, we identified 965 associated registrations. This included about 300 registrations associated with characteristics of a likely shell company or that were a noncitizen trust or a U.S. citizen corporation using a voting trust.

Nominees. The use of a nominee—an individual or entity listed as the owner but in fact is acting on behalf of a beneficial owner—is an invalid

⁵Intermediaries that are banks are required to establish due diligence procedures for accepting and monitoring their clients as part of banks’ anti-money-laundering requirements under the Bank Secrecy Act and its amendments. 81 Fed. Reg. 29398 (May 11, 2016).

means to register an aircraft per FAA regulations.⁶ An example involves using a U.S. resident nominee to register as the owner of an aircraft on behalf of the beneficial owner, because the beneficial owner does not meet citizenship requirements. Regardless, this practice to fraudulently register using nominees to obscure beneficial owner information has occurred. We found in 2020 that, according to FAA officials, this practice may have enabled otherwise ineligible foreign entities to meet aircraft registration citizenship requirements.

Multiple Examples Illustrate Criminal and National Security Risks

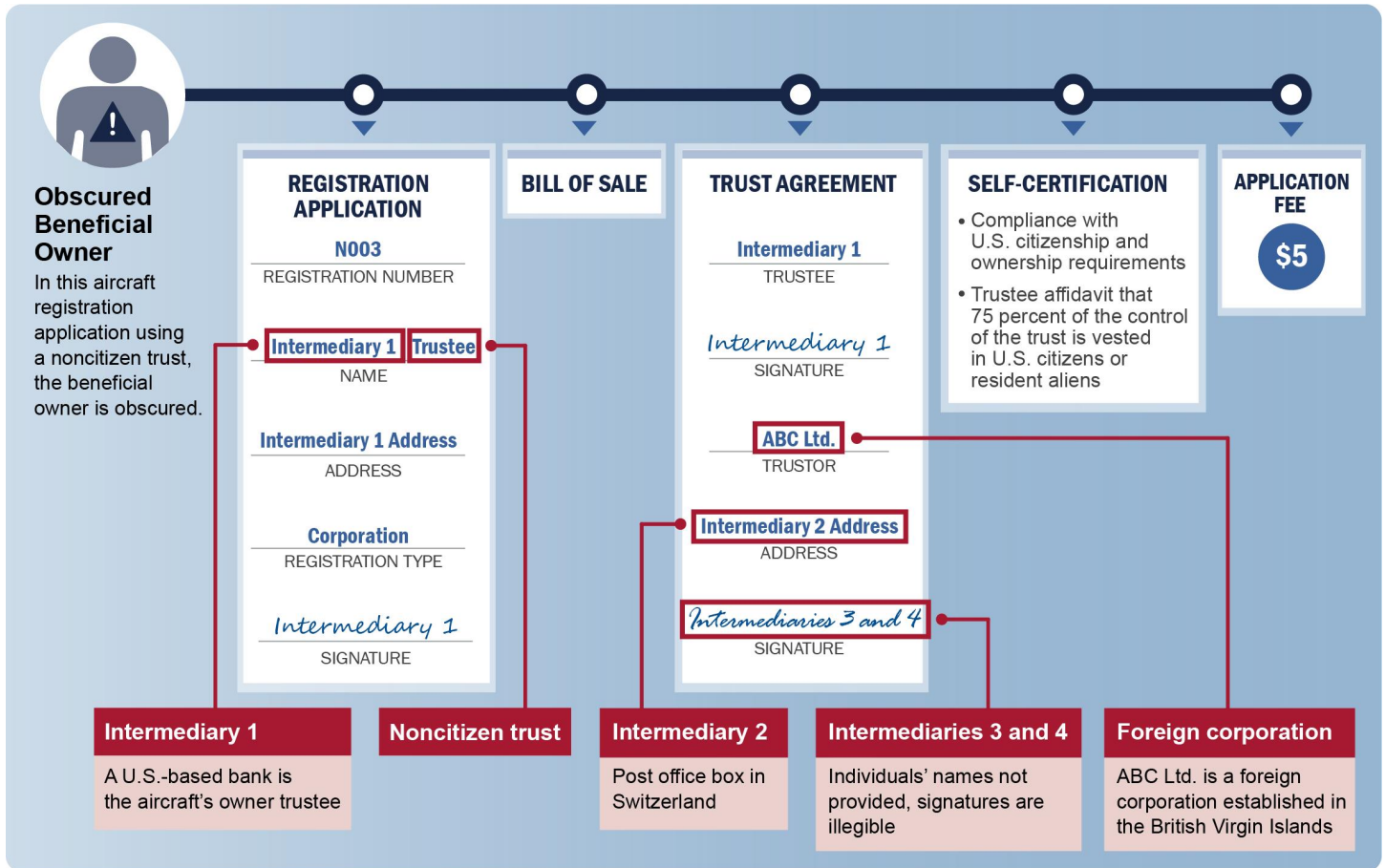
In our 2020 report, we identified examples where the opaque ownership structures and approaches described above were applied, sometimes in combination with each other, to obscure beneficial ownership, enabling criminal and national security risks.

Aircraft forfeiture in a Malaysian money laundering case. According to our review of registry documents, an intermediary registered an aircraft in 2010 using a noncitizen trust whose beneficial owner was a high-net-worth foreign national. The intermediary—a bank that provided corporate owner trustee services for aircraft registrations—established the noncitizen trust to register the aircraft on behalf of the foreign national. The trust agreement identified the trustor (trust beneficiary) as a company established in the British Virgin Islands. The trustor’s address for correspondence was listed as a post office box in Switzerland, with an email address indicating another trust company. Signatures of two trustors, identified as directors of two other apparent intermediary companies, were illegible and omitted printed names of individuals (see fig. 1). In 2019, the foreign national consented to the forfeiture of this aircraft and other property to the U.S. Department of Justice as part of an agreement associated with money laundering.⁷

⁶Typically, the nominee will have no knowledge of the business affairs or accounts, cannot control or influence the business, and will not act unless instructed by the beneficial owner.

⁷In this agreement, the parties agreed to the exchange for the release of certain other frozen assets, with both parties agreeing that the agreement did not constitute a finding of guilt, fault, liability, or wrongdoing.

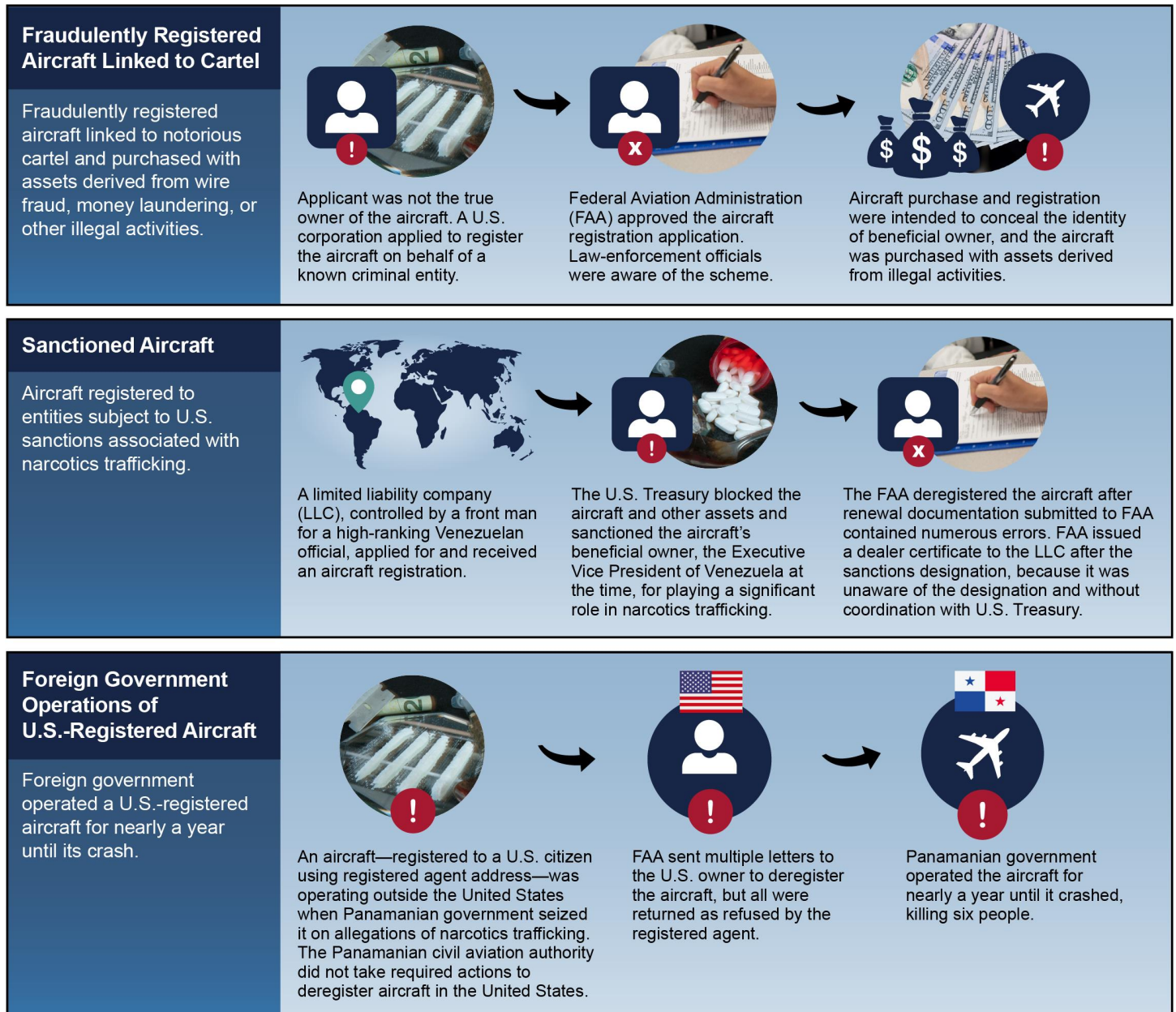
Figure 1: Example of Opaque Aircraft Ownership Information and Use of Multiple Intermediaries and Jurisdictions



Sources: GAO analysis of Federal Aviation Administration information; GAO (icons). | GAO-24-107495

We also identified cases that highlight criminal and national security risks stemming from fraud and abuse of aircraft registrations. See figure 2.

Figure 2: Case Studies Highlighting Criminal and National Security Risks Stemming from Fraud and Abuse in Aircraft Registrations



Sources: GAO analysis of court records, sanctions, and information from the Federal Aviation Administration and the National Transportation Safety Board; GAO (photos and icons) and gt29/stock.adobe.com (flags). | GAO-24-107495

Fraudulently registered aircraft linked to notorious cartel. A 2016 case involving the use of a nominee to register an aircraft on behalf of an

ineligible owner illustrates the criminal risks associated with aircraft ownership misrepresentation. A U.S. corporation, acting as a nominee on behalf of entities known to have ties to the Sinaloa Cartel, purchased the aircraft. It also filed registration documents for the aircraft and represented itself as the aircraft owner.

According to court documents, by registering as the aircraft owner, the nominee corporation concealed that the aircraft was ineligibly owned by non-U.S. citizens with Mexican drug cartel ties. FAA accepted the registration and registered the aircraft in 2014.

A U.S. law-enforcement agency, which was aware of the scheme, subsequently seized the aircraft. The law-enforcement investigation into this case revealed that some of the same entities had previously been involved in similar aircraft purchasing schemes associated with drug trafficking. The aircraft in this case was forfeited to the U.S. federal government because its registration was fraudulent and it was purchased with assets derived from wire fraud, money laundering, or other unlawful activities.

Sanctioned aircraft. In 2017, the Department of the Treasury's Office of Foreign Assets Control (OFAC) designated the Executive Vice President of Venezuela as a Specially Designated Narcotics Trafficker for playing a significant role in international narcotics trafficking. According to the 2017 OFAC announcement, this government official facilitated shipments of narcotics to Mexico and the United States, including control over airplanes and ports used in drug trafficking in Venezuela. Further, this official used a front man to launder drug proceeds and purchase assets. The front man owned or controlled U.S. companies that included an LLC that registered an aircraft with FAA. The LLC used a voting trust to meet U.S. citizenship requirements. As part of its action, OFAC also designated the front man for providing material assistance, financial support, or goods or services in support of the international narcotics trafficking activities and acting for or on behalf of the Venezuelan Executive Vice President. OFAC also identified as blocked property the U.S.-registered aircraft and the LLC used to register the aircraft.

According to FAA officials, the agency does not have the legal authority to deny a registration solely because of a sanctions designation. OFAC notified FAA of the designation, and FAA flagged the aircraft in its system. FAA deregistered the aircraft in 2019 after registration renewal documentation submitted to FAA contained numerous errors. However, because the flags placed on sanctioned individuals' and entities'

registration records do not extend to dealer records, FAA issued a dealer certificate to the blocked LLC after the OFAC designation and without coordination with OFAC, according to FAA records and officials.⁸ The blocked LLC held the dealer certificate for a year until the certificate expired.

Foreign government operations of U.S.-registered aircraft. In 2011, an aircraft registered to a U.S. citizen with a registered agent address crashed off the coast of Panama, with six fatalities. At the time of the crash, the government of Panama was operating the aircraft under the U.S. registration of the owner. According to FAA officials and documents we reviewed, the aircraft had been seized by Panamanian authorities in 2010 on allegations that it had been used to traffic narcotics from Panama into Colombia.

According to an FAA official knowledgeable about this case, the Panamanian civil aviation authority registered the aircraft in Panama and painted a Panamanian registration number on it. However, the Panamanian civil aviation authority did not first deregister the aircraft in the United States. FAA sent multiple letters to the U.S. owner to deregister the aircraft and also when the aircraft registration was expiring, but all were returned as refused by the registered agent. According to an FAA official we interviewed about this case, the Panamanian civil aviation authority operated the aircraft under U.S. registration for approximately 1 year until its crash. According to this official, at the time of the crash the aircraft was reportedly operated by the Panamanian civil aviation authority for the purposes of radar maintenance missions in that country.

FAA Took Steps to Mitigate Fraud and Abuse Risks, but Registry Remains Vulnerable

In our 2020 report, we made 15 recommendations to FAA, and the agency agreed with all of them (see app. I). As of April 2024, FAA has implemented three recommendations related to fraud and abuse risk management. FAA has not implemented 12 recommendations—including

⁸FAA issues dealer certificates, also known as dealer licenses, in support of aviation commerce. Individuals and legal entities who are U.S. citizens can apply for an aircraft dealer certificate. The certificates allow manufacturers and dealers to demonstrate and merchandize aircraft for prospective buyers and to make flight tests without a standard aircraft registration certificate. A dealer may obtain one or more certificates and may use a certificate for any aircraft the dealer owns.

a priority recommendation aimed at verifying applicants' and dealers' eligibility and information, leaving the registry vulnerable to fraud and abuse.⁹

FAA Assessed Fraud and Abuse Risks and Developed a Strategy

We made three recommendations to FAA to (1) conduct and document a risk assessment that considers inherent and residual fraud and abuse risks¹⁰ that may enable criminal, national security, or safety risks; (2) determine impact, likelihood, and risk tolerance as part of a risk assessment;¹¹ and (3) develop a strategy that outlines specific actions to address analyzed risks, including periodic assessments to evaluate the continuing effectiveness of the risk response.

For the first and second recommendation, in March 2022, FAA provided us with a civil aircraft registration fraud risk assessment. The assessment identified inherent and residual risks that fall into compliance, operational, legal, reputational, and reporting categories. FAA further determined risk tolerance, risk priority based on risk likelihood and impact, and developed risk treatment recommendations and tasks to mitigate identified risks.

In response to the third recommendation, in March 2022, FAA provided us with a civil aircraft registration fraud risk management strategy. The strategy, among other things, outlines responsible organizations and time frames for specific actions to address analyzed risks within strategy

⁹Priority recommendations are those that we believe warrant priority attention from heads of key departments or agencies. They are highlighted because, upon implementation, they may significantly improve government operations, for example, by realizing large dollar savings; eliminating mismanagement, fraud, and abuse; or making progress toward addressing a high-risk or duplication issue.

¹⁰Inherent risk is the risk to an entity in the absence of management's response to the risk. Residual risk is the risk that remains after management's response to inherent risk. In the FAA context, inherent risks may differ by registration type or registrations involving intermediaries, including, for example, nonbank intermediaries that are not subject to Bank Secrecy Act requirements.

¹¹Impact refers to the likely magnitude of deficiency that could result from the risk and is affected by factors such as the size, pace, and duration of the risk's impact. Likelihood of occurrence refers to the level of possibility that a risk will occur. The nature of the risk involves factors such as the degree of subjectivity involved with the risk and whether the risk arises from fraud or from complex or unusual transactions. The oversight body may oversee management's estimates of significance so that risk tolerances have been properly defined.

areas, such as rulemaking, agreements, process updates, information technology updates, training, and change management. The strategy also includes plans for periodic assessments.

These FAA actions met the intent of our recommendations and are consistent with leading practices identified in GAO's Fraud Risk Framework.¹² The framework, issued in July 2015, provides a comprehensive set of key components and leading practices to help agency managers combat fraud in a strategic, risk-based way.¹³ With its risk assessment and antifraud strategy, FAA is better positioned to manage fraud and abuse risks on a continuous basis, revisiting them based on an evolving risk landscape and through implementation of controls such as identity and ownership verification.

Key Unimplemented Recommendations Leave Registry Vulnerable to Fraud and Abuse

Among the 12 remaining recommendations that FAA has not yet implemented, we consider three related to data collection and verification as key in helping FAA to mitigate fraud and abuse in aircraft registrations.¹⁴ In concert with the three implemented recommendations

¹²GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 2015).

¹³The Payment Integrity Information Act of 2019 requires that the guidelines for federal agencies established by the Office of Management and Budget (OMB)—which incorporate the leading practices from the Fraud Risk Framework—remain in effect after the Fraud Reduction and Data Analytics Act of 2015 was repealed. Pub. L. No. 116-117, § 2(a), 134 Stat. 113, 131 - 132 (2020), codified at 31 U.S.C. § 3357. The act requires these guidelines to remain in effect, subject to modification by OMB as necessary, and in consultation with GAO. The Fraud Reduction and Data Analytics Act of 2015 required OMB to establish guidelines for federal agencies to create controls to identify and assess fraud risks and to design and implement antifraud control activities. The act further required OMB to incorporate the leading practices from the Fraud Risk Framework in the guidelines. Pub. L. No. 114-186, 130 Stat. 546 (2016). In October 2022, OMB issued a Controller Alert reminding agencies that, consistent with the guidelines contained in OMB Circular A-123, which are required by Section 3357 of the Payment Information Integrity Act of 2019, Pub. L. No. 116-117, they must establish financial and administrative controls to identify and assess fraud risks. In addition, OMB reminded agencies that they should adhere to the leading practices in GAO's Fraud Risk Framework as part of their efforts to effectively design, implement, and operate an internal control system that addresses fraud risks. Office of Management and Budget, *CA-23-03, Establishing Financial and Administrative Controls to Identify and Assess Fraud Risk* (Oct. 17, 2022).

¹⁴FAA has taken some steps to address the other nine recommendations. We continue to monitor FAA's progress on these recommendations.

on fraud and abuse risk management, implementation of these recommendations would help FAA to strategically manage fraud and abuse risks on an ongoing basis while informing FAA data collection and verification efforts. The collection of necessary data serves as a steppingstone to the verification efforts critical in assuring the validity and accuracy of aircraft registry information.

Specifically, in terms of data collection, we made two recommendations for FAA to collect and record information on (1) individual registrants and (2) legal entities not traded publicly. In 2020, we identified some initial data elements that FAA could collect for individual registrants, such as name, address, date of birth, and driver's license for individuals, with subsequent personally identifiable information (PII) elements informed by the risk assessment, once completed. For entities, we recommended collecting information on each individual and entity that owns more than 25 percent of the aircraft to facilitate beneficial owner identification.

Priority Recommendation

The Administrator of FAA should verify aircraft registration applicants' and dealers' eligibility and information.

Source: GAO. | GAO-24-107495

We also recommended that FAA verify applicants' and dealers' eligibility and information, which became a priority recommendation in June 2021.

FAA's actions in response to these recommendations, along with several others, involve broader FAA efforts to modernize its information technology infrastructure. In December 2022, FAA initially released the Civil Aviation Registry Electronic Services (CARES) system. This is a web-based system aimed to

- provide the aviation community with the ability to securely submit applications,
- upload documentation, and
- provide the data necessary for the Civil Aviation Registry to perform aircraft registration and airman certification services.

FAA plans to release various system capabilities in phases, with CARES becoming the system of record in late 2025.

FAA has informed us of multiple steps it has taken to address our data collection and validation recommendations. FAA stated that it released some initial capabilities in December 2022 requiring individuals, corporations, and LLCs to authenticate their identity using FAA MyAccess. However, according to FAA, CARES does not permanently save submitted data beyond individual name, physical address, and citizenship attestation. The inability to collect and store complete applicant data limits FAA's efforts to ensure eligibility, to conduct oversight through fraud data analytics across registrations, and to support law-enforcement officials' efforts to identify relevant persons and entities as part of investigations involving registered aircraft.

In March 2023, FAA reported that the agency anticipated initiating rulemaking to collect additional data for verification purposes by December 2023. However, in February 2024, FAA officials reported that their efforts related to collecting additional data and validating applicant information against reliable sources were ongoing. Additional data collection for corporations and LLCs was being prepared for internal review under the Paperwork Reduction Act. Officials further reported that FAA was exploring options involving third-party software, as well as data-sharing agreements with law-enforcement agencies for applicant identity validation purposes. To fully implement these recommendations, the agency needs to collect needed data and develop an approach for verification of applicant and dealer information and eligibility. Without a process to verify applicants' information and eligibility, FAA is limited in its ability to prevent fraud and abuse of its aircraft registry. We will continue to monitor FAA's progress in this area.

Chairman Whitehouse, Co-Chairman Grassley, and Members of the Caucus, this concludes my prepared statement. I would be pleased to respond to any questions.

GAO Contact and Staff Acknowledgments

For further information about this testimony, please contact Rebecca Shea, Director, Forensic Audits and Investigative Service, at (202) 512-6722 or shear@gao.gov.

Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement.

Letter

GAO staff who made key contributions to this testimony are Irina Carnevale and Toni Gillich (Assistant Directors), James Healy (Analyst in Charge), Yue Pui Chin, Colin Fallon, Maria McMullen, and James Murphy.

Appendix I: GAO Recommendations

In a March 2020 report titled *Aviation: FAA Needs to Better Prevent, Detect, and Respond to Fraud and Abuse Risks in Aircraft Registration*, we made 15 recommendations to the Federal Aviation Administration (FAA).¹ FAA agreed with all of our recommendations. As of April 2024, it has fully implemented the first three recommendations.

1. The Administrator of FAA should conduct and document a risk assessment that considers inherent and residual fraud and abuse risks that may enable criminal, national security, or safety risks.
2. The Administrator of FAA should determine impact, likelihood, and risk tolerance as part of a risk assessment.
3. The Administrator of FAA should develop a strategy that outlines specific actions to address analyzed risks, including periodic assessments to evaluate continuing effectiveness of the risk response.
4. The Administrator of FAA should collect and record information on individual registrants, initially including name, address, date of birth, and driver's license or pilot's license, or both, with subsequent PII elements informed by the risk assessment, once completed.
5. The Administrator of FAA should collect and record information on legal entities not traded publicly—on each individual and entity that owns more than 25 percent of the aircraft; for individuals: name, date of birth, physical address, and driver's license or pilot's license, or both; and for entities: name, physical address, state of residence, and taxpayer identification number.
6. The Administrator of FAA should verify aircraft registration applicants' and dealers' eligibility and information. (Priority Recommendation)²

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).

²Priority open recommendations are the GAO recommendations that warrant priority attention from heads of key departments or agencies because their implementation could save large amounts of money; improve congressional and/or executive branch decision-making on major issues; eliminate mismanagement, fraud, and abuse; or ensure that programs comply with laws and that funds are legally spent, among other benefits.

7. The Administrator of FAA should 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. (Priority Recommendation)
8. The Administrator of FAA should ensure, as part of aircraft registry IT modernization, that information currently collected in ancillary files or in PDF format on (1) owners and related individuals and entities with potentially significant responsibilities for aircraft ownership (e.g., beneficial owners, trustors, trustees, beneficiaries, stockholders, directors, and managers) and (2) declarations of international operations is recorded in an electronic format that facilitates data analytics by FAA and its stakeholders.
9. The Administrator of FAA should link information on owners and related individuals and entities with significant responsibilities for aircraft ownership through a common identifier.
10. The Administrator of FAA should, as part of IT modernization, develop an approach to check the Department of the Treasury's Office of Foreign Assets Control's (OFAC) sanctions data on owners and related individuals and entities with potentially significant responsibilities for aircraft ownership for coordination with OFAC and to flag sanctioned individuals and entities across aircraft registration and dealer systems.
11. The Administrator of FAA should use data collected as part of IT modernization as well as current data sources to identify and analyze patterns of activity indicative of fraud or abuse, based on information from declarations of international operations, postal addresses, sanctions listings, and other sources, and information on dealers, noncitizen corporations, and individuals and entities with significant responsibilities for aircraft ownership.
12. The Administrator of FAA should develop and implement risk-based mitigation actions to address potential fraud and abuse identified through data analyses.
13. The Administrator of FAA should develop mechanisms, including regulations if necessary, for dealer suspension and revocation.
14. The Administrator of FAA, in coordination with relevant law-enforcement agencies, should enhance coordination within the Aircraft Registry Task Force through collaborative mechanisms such as written agreements and use of liaison positions.

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15. The Administrator of FAA, in coordination with relevant law-enforcement agencies, should develop a mechanism to provide declarations of international operations for law-enforcement purposes.

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