

PHILIP MORRIS MANAGEMENT CORP. INTER-OFFICE CORRESPONDENCE

120 PARK AVENUE, NEW YORK, NEW YORK 10017-5592

TO: M. E. Szymanczyk

DATE: Advance Copy

FROM: A. N. Roberts

SUBJECT: **Corporate Audit Report PM USA 00-XX**
Review of Advertising Media and Print Production Expenditures at
Leo Burnett, Chicago, Illinois

In 1998, the Philip Morris Inc. (PM USA) Youth Smoking Prevention Department selected Starcom Media Services (Starcom), a division of Leo Burnett Company Inc. (Leo Burnett), to purchase media space for the Youth Smoking Prevention Program (YSP Program). Leo Burnett was selected because of its long-standing relationship with PM USA for producing and procuring print advertisements in magazines and newspapers for the majority of PM USA's tobacco brands. Leo Burnett's advertising media and print production billings totaled approximately \$257.0 million in 2000.

Overall, we found controls over the procurement of media and production and verification of agency billings are adequate and operating effectively. We did, however, identify opportunities where controls could be further enhanced.

Management agrees with the contents of our report and has indicated that appropriate corrective action has been or will be taken.

Andrew N. Roberts
Audit Director

Distribution:

Philip Morris USA

C. J. Levy
N. B. Lund
D. M. Oramas
S. K. Piskor
H. G. Steele

Philip Morris Companies Inc.

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L. C. Camilleri
P. Pfister (3)
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PricewaterhouseCoopers L.L.P.

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