
Return to Vendor (RTV) Procedure for Defective Material

1.0 Objective & Intent

The objective of this policy is to establish a standardized, auditable procedure for identifying, documenting, and returning defective or non-conforming materials to vendors. This procedure directly mitigates cash flow erosion by ensuring timely credit recovery, prevents the accumulation of unusable inventory that distorts balance sheet accuracy, and reduces operational liability arising from the use of substandard materials in production. Adherence to this policy protects the company's working capital and maintains supplier accountability.

2.0 Operational Scope

This policy applies to all inbound raw materials, hardware, packaging, and finished goods received from external vendors that are found to be defective, damaged, or non-conforming upon receipt or during production. It encompasses the Receiving Department, Quality Control, Production, Inventory Management, and Accounts Payable. All transactions involving the return of material to a vendor for credit or replacement are governed by this procedure.

3.0 Compliance & Data Security

All RTV documentation must be retained for a minimum of seven years in accordance with CRA record-keeping requirements. Access to RTV records is restricted to authorized personnel in Inventory Control, Accounts Payable, and Management. Personal information of vendor contacts must be handled in compliance with PIPEDA. Financial internal controls require that no credit is applied to an account without a corresponding RTV number and signed inspection report. All electronic records must be stored on the company's secure network with daily backups.

4.0 Required Software & Administrative Tools

- JobBOSS or equivalent ERP system for inventory and order management
- Microsoft Dynamics GP or equivalent accounting platform for accounts payable and credit memo processing
- Company email system for vendor communication
- Digital document scanner for capturing inspection reports and packing slips
- Shared network drive or SharePoint for storing RTV documentation

5.0 Step-by-Step Administrative Workflow

1. Upon discovery of defective material, the originating department (Receiving, Production, or Quality Control) immediately isolates the material and tags it with a 'Defective – Do Not Use' hold tag including date, inspector initials, and defect description.
2. Within 2 business hours, the department supervisor submits a digital Defective Material Report (DMR) through the ERP system, attaching photos and a detailed description of the non-conformance.
3. The Inventory Control Manager reviews the DMR within 4 business hours and determines if the defect is vendor-caused or internal. If vendor-caused, an RTV number is generated in the ERP system.

4. The Inventory Control team creates an RTV packing list and coordinates with the Shipping department to prepare the material for return, ensuring original packaging is used where possible.
5. Within 1 business day of RTV creation, the Accounts Payable department sends a formal RTV notification to the vendor via email, including the RTV number, defect details, and requested resolution (credit or replacement).
6. The vendor is given 5 business days to respond with an RMA number. If no response is received, the Inventory Control Manager escalates to the Purchasing Manager for follow-up.
7. Once an RMA is received, the material is shipped back to the vendor with a copy of the RTV packing list and RMA number. The shipping cost is recorded and tracked for potential recovery.
8. Upon receipt of the vendor's credit memo or replacement shipment, the Accounts Payable department matches it to the open RTV record in the ERP system and processes the credit within 2 business days.
9. The Inventory Control Manager closes the RTV record in the ERP system and updates the inventory ledger to reflect the return. All documentation is archived to the shared network drive.
10. A monthly RTV summary report is generated by the Inventory Control Manager and reviewed by the Controller to identify recurring defect trends and supplier performance issues.

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