

310-S OBSERVATION SERVICES

EFFECTIVE DATE: March 3, 2017

The Division of Developmental Disabilities (Division) covers Observations services. Observation services are those reasonable and necessary services provided on a hospital's premises for evaluation to determine whether the member should be admitted for inpatient care, discharged, or transferred to another facility. Observation services include: the use of a bed, periodic monitoring by a hospital's nursing or, if appropriate, other staff necessary to evaluate, stabilize or treat medical conditions of a significant degree of instability and/or disability on an outpatient basis.

It is not Observation when a member with a known diagnosis enters a hospital for a scheduled procedure/treatment that is expected to keep the member in the hospital for less than 24 hours (this is an outpatient procedure, regardless of the hour in which the member presented to the hospital, whether a bed was utilized, or whether services were rendered after midnight).

Extended stays after outpatient surgery must be billed as recovery room extensions.

Observation must be ordered in writing by a physician, or other individual authorized by hospital staff bylaws, in order to admit patients to the hospital or to order outpatient diagnostic tests or treatments. There is no maximum time limit for Observation services as long as medical necessity exists. The medical record must document the basis for Observation services.

Factors That Must Be Considered by the Physician or Authorized Individual When Ordering Observation

The following factors must be considered by the physician or authorized individual when ordering Observation:

- A. Severity of the signs and symptoms of the member
- B. Degree of medical uncertainty that the member may experience an adverse occurrence
- C. Need for diagnostic studies that appropriately are outpatient services (i.e., their performance does not ordinarily require the member to remain at the hospital for 24 hours or more) to assist in assessing whether the member should be admitted
- D. The availability of diagnostic procedures at the time and location where the member presents
- E. It is reasonable, cost effective and medically necessary to evaluate a medical condition or to determine the need for inpatient admission
- F. Length of stay for Observation is medically necessary for the member's condition.

Required Medical Record Documentation

The following are requirements for documenting medical records:

- A. Orders for Observation must be written on the physician's order sheet, not the emergency room record, and must specify, "Observation." Rubber-stamped orders are not acceptable.
- B. Follow-up orders must be written within the first 24 hours, and at least every 24 hours if Observation is extended.
- C. Changes from "Observation to inpatient" or "inpatient to Observation" must be made per physician order.
- D. Inpatient/outpatient status change must be supported by medical documentation.

Limitations

The following services are not Division-covered Observation services:

- A. Substitution of Observation services for physician ordered inpatient services
- B. Services that are not reasonable, cost effective and necessary for diagnosis or treatment of member
- C. Services provided solely for the convenience of the member or physician
- D. Excessive time and/or amount of services medically required by the condition of the member
- E. Services customarily provided in a hospital-based outpatient surgery center and not supported by medical documentation of the need for Observation.