

## **310-S OBSERVATION SERVICES**

EFFECTIVE DATE: September 17, 2025  
REFERENCES: AMPM 310-S; AMPM 820

### **PURPOSE**

This policy applies to the Division of Developmental Disabilities (Division) Administrative Services Subcontractors (AdSS) to outline the coverage of Observation Services by the AdSS, and requirements for Observation Services for evaluation of a Member to determine whether the Member should be admitted for inpatient care, discharged, or transferred to another facility.

### **DEFINITIONS**

1. "Medically Necessary Services" means health care services or supplies that are needed to diagnose or treat an illness, injury, condition, disease, or its symptoms – and that meet accepted standards of medicine.
2. "Member" means the same as "Client", a person receiving developmental disabilities services from the Division, as specified

in A.R.S. § 36-551.

3. "Observation Services" means 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.
4. "Recovery Room Extensions" means an outpatient extended recovery to allow the physician to monitor the condition for an extended period of time beyond the standard recovery room.

## **POLICY**

### **A. GENERAL REQUIREMENTS**

1. The AdSS shall cover Observation Services which include the use of a bed and periodic monitoring by hospital nursing staff or other staff to evaluate, stabilize or treat medical conditions of a significant degree of instability or disability.
2. The AdSS shall provide Observation Services on an outpatient basis if determined reasonable and necessary to decide whether the Member should be admitted for inpatient care.

3. The AdSS shall require Observation Services or level of care are ordered in writing by a physician, or other individuals authorized by hospital staff bylaws, in order for a Member to:
  - a. Be admitted to the hospital for Observation Services, or
  - b. Have outpatient diagnostic tests or treatments ordered to assist in assessing whether the Member should be admitted.
4. The AdSS shall require extended recovery room stays after outpatient surgery are billed as Recovery Room Extensions.

**B. FACTORS TO BE CONSIDERED BY THE PHYSICIAN OR  
AUTHORIZED INDIVIDUAL WHEN ORDERING OBSERVATION**

1. The AdSS shall require physicians, or authorized individuals, take the following into consideration when ordering Observation Services:
  - 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 tests or treatments appropriate for outpatient services, that do 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. 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 Services is Medically Necessary for the Member's condition; and
- g. Whether the Member now meets for inpatient criteria and the Level of Care (LOC) status needs to be changed.

**C. REQUIRED MEDICAL RECORD DOCUMENTATION**

The AdSS shall require the following information is documented in the Member's medical record:

- a. Orders for Observation Services written on the physician's order sheet, not the emergency room record, which specifies, "Observation Services";
- b. Orders for observation services that have not been authenticated by the ordering provider's written or valid electronic signature are not acceptable;
- c. Follow-up orders written within the first 24 hours, and at least every 24 hours if Observation Services are extended;
- d. Changes from "Observation Services to inpatient" or "inpatient to Observation Services" made per physician order; and
- e. Inpatient or outpatient status change, supported by medical documentation.

**D. LIMITATIONS**

1. The AdSS shall not cover the following Observation Services:
  - a. Substitution of Observation Services for physician ordered inpatient services;

- b. Services that are not reasonable, cost effective, or necessary for diagnosis or treatment of the Member;
- c. Services provided solely for the convenience of the Member or physician;
- d. Excessive time or amount of Observation Services than are medically required by the condition of the Member, which typically do not exceed 48 hours; and
- e. Services customarily provided in a hospital-based outpatient surgery center and not supported by medical documentation of the need for Observation Services.

#### **SUPPLEMENTAL INFORMATION**

1. It is not considered an Observation Service when a Member with a known diagnosis enters a hospital for a scheduled procedure or treatment that is expected to keep the Member in the hospital for less than 48 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.

2. Refer to AMPM 820 for Prior Authorization and Utilization Management requirements for Fee-For-Service (FFS) providers.

*Vicki Copeland, MD*

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Signature of Chief Medical Officer

Vicki Copeland

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Name

Sep 15, 2025

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Date