

## **310-S OBSERVATION SERVICES**

REVISION DATE: 9/17/2025

REVIEW DATES: 1/27/2025, 1/29/2024, 10/19/2023

EFFECTIVE DATE: March 3, 2017

REFERENCES: AMPM 310-S; AMPM 820

### **PURPOSE**

This policy applies to the Division of Developmental Disabilities (Division) and outlines the coverage of Observation Services by the Division and the 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 INFORMATION**

1. The Division 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 Division shall cover Observation Services on an outpatient basis if determined reasonable and Medically Necessary to decide whether the Member should be admitted for inpatient care.

3. The Division 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 Division shall require extended recovery room stays after outpatient surgery are billed as Recovery Room Extensions.
5. The Division shall require dates authorized for recovery room extensions to match the dates billed on the claim for THP Members.
6. The Division shall require authorization of extended recovery room services and require submission of supporting documentation for THP Members.

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

The Division 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 studies that appropriately are 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**

1. The Division shall require the following information is documented in the Member's medical records:
  - a. Orders for Observation Services written as a physician's order 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 to inpatient" or "inpatient to Observation" made per physician order;
  - e. Inpatient or outpatient status change, supported by medical documentation; and
  - f. Physician's daily progress notes accompany documentation.
  
2. The Division shall require all claims for Observation Services be submitted with the documentation outlined above in (C) (1) for THP Members.

**D. LIMITATIONS**

1. The Division 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 and necessary for diagnosis or treatment of 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.

*Vicki Copeland, MD*

Signature of Chief Medical Officer

Vicki Copeland

Name

Sep 15, 2025

Date