

HEALTH PLAN POLICY	
Policy Title: Observation Stay Review	Policy Number: MUM08 Revision: G
Department: Medical Management	Sub-Department: Utilization Management
Applies to Product Lines: <input type="checkbox"/> Medicaid <input checked="" type="checkbox"/> USFHP <input type="checkbox"/> Children’s Health Insurance Plan <input checked="" type="checkbox"/> Commercial Insured <input checked="" type="checkbox"/> Health Insurance Exchange <input checked="" type="checkbox"/> Non Insured Business <input checked="" type="checkbox"/> Medicare	
Origination/Effective Date: 12/09/2014	
Reviewed Date(s):	Revision Date(s): 03/04/2016, 06/01/2017, 09/20/2018, 04/29/2020, 12/15/2020, 12/07/2021, 11/18/2022

SCOPE:

The purpose of this policy is to provide guidelines for appropriate medical necessity review of observation level of care, and support the transition of any ongoing care to the next most appropriate level.

DEFINITIONS AND ACRONYMS:

- **Observation Services** - Observation services are defined as the use of a bed and periodic monitoring by a hospital's nursing or other ancillary staff, which are reasonable and necessary to evaluate an outpatient's condition to determine the need for possible inpatient admission. Such services are provided when ordered by a physician or another individual authorized by State licensure law and hospital staff bylaws to admit patients to the hospital or to order outpatient tests.
- **Unstable Medical Condition-** Unstable medical condition is defined as variance from generally accepted normal laboratory values; and clinical signs and symptoms are present that need further evaluation and monitoring; and changes in patient’s status or condition that may require immediate medical intervention.

POLICY:

A. Observation stay is covered if the following criteria are met:

- The patient arrives at the facility with an unstable medical condition via the emergency room; observation services are indicated to evaluate medical conditions to determine the need for possible inpatient admission to hospital.
- Laboratory, radiology or other testing is necessary in order to assess the patient’s need for hospitalization.
- Based upon the patient’s condition, the completion of treatment plan is anticipated within 48 hours.

B. Observation services include:

- **Diagnostic testing:** For scheduled invasive outpatient diagnostic tests, the routine preparation and immediate recovery is not considered observation service. If the patient has significant adverse reaction (beyond the usual and expected response) and requires further monitoring, the

HEALTH PLAN POLICY

Policy Title: Observation Stay Review

Policy Number: MUM08

Revision: G

observation services may be reasonable and necessary. Observation services begin at the point of time when the significant adverse reaction has occurred and ends when it is determined whether the patient required inpatient admission.

- Outpatient therapeutic services and surgical procedures: When a patient has been scheduled for ongoing therapeutic services as a result of a known medical condition, a period of time is required to evaluate the response and recovery to the service. The period of evaluation is an appropriate component of the therapeutic service and is not considered an observation service. The observation service begins at that point of time when a significant adverse reaction occurred that is above and beyond the usual and expected response to a service or procedure.
- Patient evaluation: When a patient arrives at the facility with an unstable condition via emergency room, observation services are reasonable and necessary to evaluate medical conditions to determine need for possible admission to the hospital as inpatient.

C. Observation services are not appropriate for:

- Services provided for the convenience of the patient, patient's family or physician.
- Routine recovery following an outpatient procedure or test.
- Care that can be only provided in the inpatient setting and is expected to require more than 48 hours.
- Services provided while awaiting transfer to another facility or due to delay in patient transportation.
- Observation status does not apply when a beneficiary is treated as an outpatient for the administration of blood only and receives no other medical treatment. The use of the hospital facilities is inherent in the administration of the blood and is included in the payment for administration.

D. Documentation required for determining appropriateness of observation stay:

- Physician's orders for observation with clock time, or clock time can be noted in the nurse's observation admission note.
- The ending time of observation occurs when the patient is discharged from the hospital or admitted as inpatient.
- Admission history, physical exam and progress notes pertinent to observation care.
- Any other pertinent clinical information such as diagnostic, ancillary testing reports and treatments performed.
- A rationale or criteria such as intensity of service and severity of illness used in clinical justification of observation stay.
- Discharge orders with clock time and appropriate discharge notes or nurse's notes.
- Administration and review with member the Medicare Outpatient Observation Notice (MOON), completed by the on-site case manager.

The utilization management nurse reviews the applicable clinical criteria, and if the patient does not meet criteria, refers the case to the chief medical officer or designee for review. The chief medical officer or his

HEALTH PLAN POLICY

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designee will be available to perform a timely review and render a decision regarding services that do not meet clinical criteria.

Hospitals and critical access hospitals are required to provide written and verbal explanation to Medicare and Medicare Advantage members who receive observation services as outpatients for more than 24 hours. The process for delivery of this standardized notice (Form CMS-10611), the Medicare Outpatient Observation Notice (MOON) can be found in §400 of Chapter 30 of the Medicare Claims Processing Manual.

REFERENCES:

- Centers of Medicare and Medicaid Local Coverage Determination (LCD): Outpatient Observation Bed/Room Services <https://www.cms.gov/medicare-coverage-database/view/lcd.aspx?LCDId=34552>
- TRICARE Policy Manual 6010.60-M, April 1, 2015, Chapter 2, Section 2.3, Outpatient observation stays
- Medicare Outpatient Observation Notice, Chapter 30, Form #CMS 10611-MOON.

RELATED DOCUMENTS:

None

REVISION HISTORY:

Revision	Date	Description of Change	Committee
New	12/09/2014	Initial Release	Board of Directors
A	03/04/2016	Yearly review – updated to current template, and minor edits to grammar.	Board of Directors
B	06/01/2017	Annual Review. Changed signatory from Anita Leal, Executive Director to Nancy Horstmann, CEO.	Board of Directors
C	09/20/2018	Annual review - product lines and references updated	Executive Leadership
D	04/29/2020	Annual review. Updated References and verbiage throughout policy.	Executive Leadership
E	12/15/2020	Compliance review. Updated References. Added information about Medicare Outpatient Observation Notice.	Executive Leadership
F	12/07/2021	Annual review. Updated to current TRICARE Policy Manual, definition of observation stay, and website for CMS.	Executive Leadership
G	11/18/2022	Annual review. No change to policy content.	Executive Leadership