

ALABAMA QUALITY ASSURANCE FOUNDATION

GENERAL MEMORANDUM 96/99-06

FOR IMMEDIATE DISTRIBUTION TO YOUR MEDICAL STAFF, UR/QA DEPARTMENTS, MEDICAL RECORDS DEPARTMENTS, AND OUTPATIENT SERVICE DEPARTMENTS

TO: Hospital Administrators, Chiefs of Staff--All Alabama Hospitals

FROM: Robert G. Sherrill Jr., M.D.
Medical Director

DATE: March 7, 1997

SUBJECT: OBSERVATION BED SERVICES- PRO CLARIFICATION

I. The purpose of this General Memorandum is to provide clarification for outpatient observation services as noted in the Medicare Hospital Manual Transmittal number 701, sections 230.6 and 455 which became effective 11/1/96. This memo replaces previous memorandums addressing this topic, including General Memorandum 88/90-22.

II. OUTPATIENT OBSERVATION BED SERVICE

- A.** The Medicare Hospital Manual, HCFA-Pub. 10, referenced above, defines outpatient observation bed services as “those services furnished on a hospital’s premises including use of a bed and periodic monitoring by a hospital’s nursing or other staff, which are reasonable and necessary to evaluate an outpatient’s condition or determine the need for a possible admission to the hospital as an inpatient.”
- B.** The purpose of outpatient observation services is to determine the need for further treatment or for inpatient admission. A person in observation status may improve and be released, or admitted as an inpatient. Generally, a person is considered to be a hospital inpatient if formally admitted as an inpatient with the expectation that he or she will remain at least overnight.
- C.** Outpatient observation services are covered only when provided by the order of 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. Outpatient observation services usually do not exceed more than one day, but may require a second day. HCFA has limited outpatient observation services to a maximum of 48 hours.

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Providers are to count as the first hour of admission the actual time admitted to the outpatient observation bed, rounded to the nearest hour. If a patient is retained on observation status for 48 hours without being admitted as an inpatient, or without a request of exception made to the fiscal intermediary, further observation services will be denied as not reasonable and medically necessary for the diagnosis or treatment of illness or injury or to improve the functioning of a malformed body member.

D. Exception to Denial of Services After 48 Hours

A hospital that believes exceptional circumstances in a particular case justify approval of additional time in outpatient observation status may request an exception to the denial of services from the fiscal intermediary. The Health Care Financing Administration (HCFA) expects such cases to be very rare and is currently unable to envision any appropriate scenario for a hospital's retaining a patient in outpatient observation status for more than 48 hours without admitting him or her as an inpatient. However, because unforeseeable circumstances could arise, HCFA is providing for the possibility of exceptions.

- **Timing of the Exception Request** - There is no preauthorization of exception requests. A hospital that believes exceptional circumstances in a particular case justify approval of additional time in outpatient observation status may request an exception to the denial of further observation services at the time of billing.
- **Content of Exception Request** - Request an exception by billing for additional hours on the same claim form. The intermediary will suspend the claim and ask for complete medical documentation for review of the medical necessity of all observation services billed.
- **Intermediary Review of Exceptions** - HCFA expects approvable exception requests to be rare as outlined above. HCFA asks the Medicare fiscal intermediary to use careful judgment in the evaluation of the medical documentation submitted by a hospital with its bill.

E. Notification of Beneficiary -- If you intend to place or retain a beneficiary in observation for a non-covered service, you must give the beneficiary proper written advance notice of non-coverage under limitation on liability procedures. Non-covered, in this context, refers to such services as those listed in section 230.6.E. of HCFA Medicare Hospital Manual.

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F. Services Which are Not Covered as Outpatient Observation Services.

The following types of services are not covered as outpatient observation services:

- Observation services which exceed 48 hours, unless the fiscal intermediary grants an exception based on the particular facts of the case when requested and explained by the hospital at the time of billing. (See HCFA Medicare Hospital Manual section 230.6.C.)
- Services which are not reasonable or necessary for the diagnosis or treatment of the patient but are provided for the convenience of the patient, his or her family, or a physician (e.g., following an uncomplicated treatment or a procedure; physician busy when patient is physically ready for discharge; patient awaiting placement in a long term care facility).
- Services which are covered under Part A, such as a medically appropriate inpatient admission, or as part of another Part B service, such as postoperative monitoring during a standard recovery period (e.g., four to six hours), which should be billed as recovery room services. Similarly, in the case of patients who undergo diagnostic testing in a hospital outpatient department, routine preparation services furnished prior to testing and recovery afterwards are included in the payment of those diagnostic services. **Observation should not be billed concurrently with therapeutic services such as chemotherapy. (The Fiscal Intermediary (FI) is awaiting a response from HCFA on the method of billing therapeutic chemotherapy. Providers should expect follow up communication from their FI in the near future.)**
- Standing orders for observation following outpatient surgery. Note that the availability of outpatient observation services does not mean that procedures such as cardiac catheterization, angioplasty, stent placement, or the administration of tissue plasminogen activation (TPA), for which an overnight stay is anticipated, may be performed on an outpatient basis. See section 210 of the HCFA Medicare Hospital Manual regarding coverage of inpatient admissions.
- Services which were ordered as inpatient services by the admitting physician, but billed as outpatient by the billing office.
- Claims for inpatient care such as complex surgery clearly requiring an overnight stay and billed as outpatient.

Claims for the preceding services will be denied as not reasonable and necessary, under 1862 (a)(1)(A) of the Social Security Act. This includes denying claims for services which are not medically necessary, which duplicate other services, or which are provided in inappropriate settings.

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NOTE: An inpatient is **not** considered to have been discharged if the patient is placed in outpatient observation status after an inpatient hospital admission. Any such service will not be recognized for payment outside the DRG payment for admission.

The following examples are referenced in Section 230.6E of the Medicare Hospital Manual and illustrate the application of this policy, including example four, when a decision to admit the patient is clearly justified:

EXAMPLE 1:

A patient comes to the emergency room complaining of difficulty breathing. The patient is seen by the physician on duty, who orders laboratory tests, including a blood gas analysis, and an injection to help the patient breathe more easily. The physician then has the patient placed in an outpatient observation unit to determine whether this intervention produces normal breathing. Six hours later the patient is again seen by the physician, who determines from the patient's chart and his or her own observation that the patient's vital signs are normal and the patient has resumed normal breathing. The patient is released. Under these circumstances, the outpatient observation services **are covered**, and the bill submitted by the hospital may include charges for those services.

EXAMPLE 2:

A patient comes to the hospital's outpatient department to undergo a scheduled surgical procedure. After surgery, the patient is taken to the recovery room, where the patient exhibits difficulty in awakening from anesthesia and an elevated blood pressure. These conditions persist throughout the usual recovery period, and the patient is seen by a physician, who has placed the patient on observation. The physician leaves orders for the nursing staff to monitor the patient's condition and note any continued abnormalities that could indicate a drug reaction or other post-surgical complications. After a few hours in observation, the patient is no longer lethargic, has a normal blood pressure and shows no other signs of post-surgical complications. The physician, upon being advised of these conditions, orders the patient released from the hospital. Under these circumstances, coverage of outpatient services **begins** when the patient is placed in the observation bed. Services received in the hospital's outpatient surgical suite and recovery room cannot be covered as observation services, since they are otherwise covered.

EXAMPLE 3:

A patient is scheduled to have an uncomplicated cataract extraction on an outpatient basis. The patient expresses a preference for spending the night following the procedure at the hospital despite the fact that the procedure does not require an overnight stay. The hospital may register and treat the patient on an outpatient basis and permit the patient to

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remain at the hospital overnight. The overnight stay cannot be covered as observation services because it is not medically necessary. (When this is the case, the patient **must** be notified in advance that the overnight stay is not medically necessary and that he or she can be charged for the additional services. If unforeseen complications necessitate inpatient admission, the patient is admitted and a Part A claim is submitted.)

EXAMPLE 4:

A patient comes to the emergency room in the evening with complaints of sudden severe flank pain which radiates to the inner thigh, nausea, vomiting, and urinary frequency and urgency. Examination reveals soreness over the kidney area, spasm of the abdominal muscles and microscopic hematuria. Additionally, an X-ray reveals the presence of a stone in the ureter. The patient is admitted to the hospital as an inpatient at 11:00 p.m. The patient is treated with intravenous (IV) fluids, intramuscular (IM) Morphine and an antispasmodic every four hours. Further diagnostic studies are scheduled for the following morning. During the night, the patient passes a stone through the urethra without complications. The patient is then comfortable without nausea or urinary complications. Therefore, the patient is discharged at 9:00 a.m. and scheduled for follow-up in the physician's office. Although the patient was able to be discharged in less than 24 hours, the admission was appropriate because it was reasonable to expect at the time of admission that the problem presented required more than 24 hours to resolve.

- III.** It is the responsibility of the Medicare Fiscal Intermediary to monitor and review claims submitted with observation bed billings. **Questions concerning observation bed status should be directed to your provider service representative at your Fiscal Intermediary.**

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