

## ORGANIZATION POLICY

POLICY TITLE: OUTPATIENT OBSERVATION SERVICES

POLICY NUMBER: 1208

**POLICY:** It is the policy of Onslow Memorial Hospital (“Hospital”) to provide outpatient observation services in a manner that complies with Medicare and Medicaid guidelines including, but not limited to, the North Carolina Intermediary’s Local Medical Review Policy. The purpose of this policy is to define the Hospital’s procedures for determining when observation services are appropriate, limitations on the provision of such services, documentation guidelines for observation services, and inappropriate uses of observation status.

### I. OUTPATIENT OBSERVATION STATUS

- A. 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 an outpatient’s condition to determine the need for possible inpatient admission.
- B. The services may be considered payable only when provided under a physician’s order (or under the order of another person who is authorized by state statute and the Hospital’s bylaws to admit patients or order outpatient testing).
- C. Outpatient observation services are not to be used as a substitute for medically necessary inpatient admissions or for the convenience of the Hospital, its physicians, patients, or patients’ families, or while awaiting placement to another healthcare facility.
- D. Observation services must be patient specific and not part of the Hospital’s standard operating procedure or protocol for a given diagnosis or service. Generally, observation services do not exceed twenty-four (24) hours. Although some patients may require up to forty-eight (48) hours of observation services, such services should not span more than forty-eight (48) hours.

II. PROCEDURE FOR DESIGNATION OF OUTPATIENT OBSERVATION STATUS

- A. A patient who arrives at the Hospital with an unstable medical condition shall be evaluated to determine whether observation services are reasonable and necessary for the purpose of evaluating the patient's medical condition to determine the need for admission to the Hospital as an inpatient.
- B. An unstable medical condition shall be defined as:
1. Clinically significant variance from generally accepted normal laboratory values; and
  2. Clinical signs and symptoms present that are above or below those within normal limits (for the specific patient).
- or
3. An anticipated change in the patient's status or condition such that immediate medical intervention may be required.
- C. After the patient receives an initial evaluation, a physician or other person who is authorized by state statute and the Hospital's bylaws to admit patients or order outpatient testing ("authorized admitting person") shall determine whether the patient shall be admitted to the Hospital as an inpatient or whether the patient should receive outpatient observation services.

II. LIMITATIONS ON OUTPATIENT OBSERVATION STATUS

- A. Outpatient surgery
1. Standing orders for observation services after outpatient surgery are prohibited. Also, observation services shall not be ordered for outpatient surgery patients unless the surgery patient exhibits an uncommon or unusual reaction to the surgical procedure (e.g., difficulty in awakening from anesthesia, drug reaction, or other post-surgical complication) which requires monitoring or treatment beyond that customarily provided in the immediate post-operative period. Routine pre-operative preparation and recovery room services are not considered observation services.

2. If an outpatient surgery patient qualifies to receive observation status, such services shall begin at the point-in-time when the qualifying event occurred and shall end when it is determined whether or not the patient requires inpatient admission. The provision of such observation services shall be completely documented in the surgical patient's medical record.

B. Diagnostic Testing

1. Standing orders for observation services after diagnostic testing are prohibited. Also, observation status shall not be ordered for patients receiving outpatient diagnostic tests unless the patient has a significant adverse reaction (beyond the usual and expected response) as a result of the test that requires further monitoring. The routine preparation before the test and the immediate recovery period following the test are not considered observation services.
2. For patients who qualify for observation services after receiving an outpatient diagnostic test, such services shall begin at that point-in-time when the qualifying event occurred and shall end when it is determined whether or not the patient requires inpatient admission. Any observation services shall be completely documented in the patient's medical record.

C. Outpatient Therapeutic Services

1. Observation status does not apply when a patient is treated as an outpatient for the administration of blood only and receives no other medical treatment.
2. When a patient has been scheduled for ongoing therapeutic services as a result of a known medical condition, a period of time is often required to evaluate the response to that service. This period of evaluation is an appropriate component of the therapeutic service and is not considered an observation service.
3. If an outpatient therapeutic service causes a patient a significant adverse reaction that is above and beyond the usual and expected response to the service, observation services shall begin at the point-in-time when the significant adverse reaction occurs and shall end when it is determined whether or not the patient requires inpatient admission.

#### IV. DOCUMENTATION

- A. Documentation in the patient's medical record must support the medical necessity of the observation service.
- B. There must be a medical observation record contained in the medical record for each observation patient. This record must be in addition to any record prepared as a result of an emergency department or outpatient clinic encounter.
- C. A separate observation tracking form will be created for each observation patient. This is in addition to the medical records. The medical record shall contain the following dated and timed documents.
  - 1. Physician orders regarding the care the patient is to receive while in observation;
  - 2. Nursing notes outlining the patient's condition and treatment;
  - 3. Progress notes prepared by the physician which clearly indicate the patient's condition and signs and symptoms that necessitate the observation stay; and
  - 4. Supporting ancillary reports such as laboratory and diagnostic test reports.
- D. An inpatient's status may not be retroactively changed to outpatient observation status unless the physician or other authorized admitting person intended to initially classify the patient under outpatient observation status but erred in his or her documentation.
- E. Any documentation error relating to the physician's or authorized admitting person's intent to classify a patient under outpatient observation status rather than inpatient status shall be corrected within 24 hours of the patient's admission. The correction itself and reason for the correction shall be noted in the patient's medical record. Any correction of error must be ordered by the physician or authorized admitting person. Any error in documentation related to a patient's inpatient or observation status shall not be corrected at any time after the above-mentioned 24-hour period has lapsed or at any time after a patient's discharge from the Hospital.

- F. Although the physician or authorized admitting person may correct a documentation error related to a patient's classification of outpatient observation status, he or she may not retroactively change his or her initial intent.
- G. Under no circumstances shall a physician or other authorized admitting person substitute outpatient observation services for medically appropriate inpatient admissions or order outpatient observation services following a medically appropriate Hospital inpatient admission.

V. INAPPROPRIATE USE OF OUTPATIENT OBSERVATION STATUS

- A. The following services shall not be considered observation services:
  - 1. Services not medically reasonable or necessary for the diagnosis or treatment of the patient;
  - 2. Services covered under Medicare Part A or as part of another Medicare Part B benefit, such as services subject to the ambulatory surgical center payment rates;
  - 3. The routine preparation and recovery of patients following diagnostic testing or therapeutic services provided in the Hospital;
  - 4. Services provided when an overnight stay is planned prior to the performance of diagnostic testing or therapeutic services (e.g., planned or anticipated overnight stay following surgery, chemotherapy, or blood transfusions);
  - 5. Services provided for the convenience of the patient, Hospital, family member, or physician.
- B. Standing orders for observation services are not permitted. The availability of outpatient observation does not mean that procedures such as cardiac catheterization, angioplasty, stent placement or the administration of tissue plasminogen activator, for which an overnight stay is anticipated, may be performed on an outpatient basis.

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