



ESSENT HEALTHCARE, INC.

Section: Corporate Compliance	Effective Date:	02/28/06
Subject: Use of Observation	Revision Date:	02/13/06
Policy #: CC-30	Review Date:	11/19/09
Responsible Party: Corporate Compliance Officer	Revision #:	1

Scope:

This policy applies to all facilities of Essent Healthcare, Inc.

Purpose:

The purpose of this policy is to set forth guidelines for the necessary and appropriate use of outpatient observation services.

Policy:

It is the policy of Essent to utilize observation services at the direction of the attending physician responsible for the patient's care while complying with all of the regulatory requirements that govern the use of observation. Documentation of observation services must be maintained in the medical record.

Observation Defined

Observation care is a well-defined set of specific, clinically appropriate services, which include ongoing short term treatment, assessment, and reassessment, that are furnished while a decision is being made regarding whether patients will require further treatment as hospital inpatients or if they are able to be discharged from the hospital. Observation status is commonly assigned to patients who present to the emergency department and who then require a significant period of treatment or monitoring before a decision is made concerning their admission or discharge. Observation services are generally 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 services.

Observation services must also be reasonable and necessary for the diagnosis and treatment of the patient (not for patient or physician convenience). In only rare and exceptional cases do reasonable and necessary outpatient observation services span more than 24 hours. In the majority of cases, the decision whether to discharge a patient from the hospital following resolution of the reason for the observation care or to admit the patient as an inpatient can be made in less than 24 hours.



ESSENT HEALTHCARE, INC.

Section: Corporate Compliance	Effective Date:	02/28/06
Subject: Use of Observation	Revision Date:	02/13/06
Policy #: CC-30	Review Date:	11/19/09
Responsible Party: Corporate Compliance Officer	Revision #:	1

Purpose of Observation

Generally, a person is considered a hospital inpatient if formally admitted as an inpatient with the expectation of remaining in the hospital at least overnight. When a hospital places a patient under observation, but has not formally admitted the person as an inpatient, the patient initially is treated as an outpatient. ***The purpose of outpatient observation is to determine the need for further treatment or for inpatient admission.*** Thus, a patient in observation may improve and be released, or be admitted as an inpatient.

Patients Who Do Not Meet Admission Criteria

In cases where utilization review determines that an inpatient admission does not meet the hospital's inpatient criteria, the hospital may change the beneficiary's status from inpatient to outpatient provided all of the following conditions are met:

- a) The change in patient status from inpatient to outpatient is made prior to discharge or release, while the beneficiary is still a patient of the hospital;
- b) The hospital has not yet submitted a claim for the inpatient admission;
- c) A physician concurs with the utilization review committee's decision; and
- d) The physician's concurrence with the utilization review committee's decision is documented in the patient's medical record.

When the hospital has determined that it may submit an outpatient claim according to the conditions described above, the entire episode of care should be treated as though the inpatient admission never occurred and should be billed as an outpatient episode of care.

When the hospital submits an outpatient claim to Medicare for services furnished to a beneficiary whose status was changed from inpatient to outpatient, *the hospital is required to report Condition Code 44 in one of Form Locators 24-30 on the outpatient claim.*

Special Medicare Observation Requirements



ESSENT HEALTHCARE, INC.

Section: Corporate Compliance	Effective Date:	02/28/06
Subject: Use of Observation	Revision Date:	02/13/06
Policy #: CC-30	Review Date:	11/19/09
Responsible Party: Corporate Compliance Officer	Revision #:	1

Beginning January 1, 2006, two new G-codes are to be used to report observation services and direct admission for observation care. Beginning January 1, 2006, hospitals should not report CPT codes 99217-99220 or 99234-99236 for observation services. In addition, the following HCPCS codes are discontinued as of January 1, 2006: G0244 (Observation care by facility to patient), G0263 (Direct Admission with congestive heart failure, chest pain or asthma), and G0264 (Assessment other than congestive heart failure, chest pain, or asthma). The three discontinued G-codes and the CPT codes that are no longer recognized are replaced by two new G-codes to be used by hospitals to report all observation services as follows:

- G0378- Hospital observation services, per hour; and
- G0379- Direct admission of patient for hospital observation care.

The OPPS claims processing logic will determine whether observation services billed as units of G0378 are separately payable under APC 0339 (Observation) or whether payment for observation services will be packaged into the payment for other services provided by the hospital in the same encounter. Therefore, hospitals should bill HCPCS code G0378 when observation services are provided to any patient in “observation status,” regardless of the patient’s condition. ***The units of service should equal the number of hours the patient is in observation status rounded to the nearest hour.***

Direct Admissions to Observation

Hospitals should report G0379 when observation services are the result of a direct admission to “observation status” without an associated emergency room visit, hospital outpatient clinic visit, or critical care service on the day of initiation of observation services. Hospitals should only report HCPCS code G0379 when a patient is admitted directly to observation care after being seen by a physician in the community thus by-passing the ED physician.

In order to receive separate payment for a direct admission to observation (APC 0600), the claim must show:

- Both HCPCS codes G0378 (Hourly Observation) and G0379 (Direct Admit to Observation) with the same date of service;



ESSENT HEALTHCARE, INC.

Section: Corporate Compliance	Effective Date:	02/28/06
Subject: Use of Observation	Revision Date:	02/13/06
Policy #: CC-30	Review Date:	11/19/09
Responsible Party: Corporate Compliance Officer	Revision #:	1

- That no services with a status indicator ``T" or ``V" were provided on the same day of service as the direct admit; and
- The observation care does not qualify for separate payment under APC 0339.

Payment is not allowed for HCPCS code G0379, direct admission to observation care, when billed with the same date of service as a hospital clinic visit, emergency room visit, critical care service, or "T" status procedure. If a bill for direct admission to observation does not meet the 3 requirements listed above, then payment for the direct admission service will be packaged into payments for other separately payable services provided to the beneficiary in the same encounter.

Special Medicare Billing Requirements

Separate payment may be made for observation services provided to a patient with congestive heart failure, chest pain, or asthma. The list of ICD-9-CM diagnosis codes eligible for separate payment is attached to this policy.

All of the following requirements must be met in order for a hospital to receive a separate APC payment for observation services through APC 0339:

1. Diagnosis Requirements
 - a. The beneficiary must have one of three medical conditions: congestive heart failure, chest pain, or asthma.
 - b. Qualifying ICD-9-CM diagnosis codes must be reported in Form Locator (FL) 76, Patient Reason for Visit, or FL 67, principal diagnosis, or both in order for the hospital to receive separate payment for APC 0339. If a qualifying ICD-9-CM diagnosis code(s) is reported in the secondary diagnosis field, but is not reported in either the Patient Reason for Visit field (FL 76) or in the principal diagnosis field (FL 67), separate payment for APC 0339 is not allowed.

2. Observation Time
 - a. Observation time must be documented in the medical record.



ESSENT HEALTHCARE, INC.

Section: Corporate Compliance	Effective Date:	02/28/06
Subject: Use of Observation	Revision Date:	02/13/06
Policy #: CC-30	Review Date:	11/19/09
Responsible Party: Corporate Compliance Officer	Revision #:	1

- b. A beneficiary's time in observation (and hospital billing) begins with the beneficiary's admission to an observation bed.
 - c. A beneficiary's time in observation (and hospital billing) ends when all clinical or medical interventions have been completed, including follow-up care furnished by hospital staff and physicians that may take place after a physician has ordered the patient be released or admitted as an inpatient.
 - d. The number of units reported with HCPCS code G0378 must equal or exceed 8 hours.
3. Additional Hospital Services
- a. The claim for observation services must include one of the following services in addition to the reported observation services. The additional services listed below must have a line item date of service on the same day or the day before the date reported for observation:
 - i. An emergency department visit (APC 0610, 0611, or 0612) or
 - ii. A clinic visit (APC 0600, 0601, or 0602); or
 - iii. Critical care (APC 0620); or
 - iv. Direct admission to observation reported with HCPCS code G0379 (APC 0600).
 - b. No procedure with a "T" status indicator can be reported on the same day or day before observation care is provided.
4. Physician Evaluation
- a. The beneficiary must be in the care of a physician during the period of observation, as documented in the medical record by admission, discharge, and other appropriate progress notes that are timed, written, and signed by the physician.
 - b. The medical record must include documentation that the physician explicitly assessed patient risk to determine that the beneficiary would benefit from observation care.
5. Only observation services that are billed on a 13X bill type may be considered for a separate APC payment.
6. Hospitals should bill all of the other services associated with the observation care, including direct admission to observation, hospital clinic visits, emergency room visits, critical care services, and "T" status procedures, on the same claim so that the claims processing logic may appropriately determine the payment status (either packaged or separately payable) of HCPCS



ESSENT HEALTHCARE, INC.

Section: Corporate Compliance	Effective Date:	02/28/06
Subject: Use of Observation	Revision Date:	02/13/06
Policy #: CC-30	Review Date:	11/19/09
Responsible Party: Corporate Compliance Officer	Revision #:	1

codes G0378 and G0379.

7. If a bill for observation care does not meet all of the requirements listed above, then payment for the observation care will be packaged into payments for other separately payable services provided to the beneficiary in the same encounter.

Services That Are Not Covered as Outpatient Observation

The following services are generally not covered as outpatient observation services:

- Observation services which exceed 48 hours unless an exception based on the particular facts of the case is made;
- Services that are not reasonable or necessary for the diagnosis or treatment of the patient but are provided for the convenience of the patient, the patient's 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; etc...);
- Services that 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., 4-6 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 the testing and recovery afterwards are included in the payment for those diagnostic services. Observation should not be billed concurrently with therapeutic services such as chemotherapy;
- Standing orders for observation following outpatient surgery. Note that the availability of outpatient observation does not mean that procedures such as cardiac catheterization, angioplasty, stent placement, or the administration of tissue plasminogen activator (TPA), for which an overnight stay is anticipated, may be performed on an outpatient basis.
- Services that were ordered as inpatient services by the admitting physician, but billed as outpatient by the billing office (must be billed as inpatient services); and
- Claims for inpatient care such as complex surgery clearly requiring an overnight stay and billed as outpatient (must be billed as inpatient services).



ESSENT HEALTHCARE, INC.

Section: Corporate Compliance	Effective Date:	02/28/06
Subject: Use of Observation	Revision Date:	02/13/06
Policy #: CC-30	Review Date:	11/19/09
Responsible Party: Corporate Compliance Officer	Revision #:	1

MEDICARE OBSERVATION EXAMPLES

Example 1

A patient comes to the emergency room complaining of difficulty in 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 a 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 the patient placed in 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 no longer is 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 observation services begins when the patient was 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 remain at the hospital overnight. The overnight stay



ESSENT HEALTHCARE, INC.

Section: Corporate Compliance	Effective Date:	02/28/06
Subject: Use of Observation	Revision Date:	02/13/06
Policy #: CC-30	Review Date:	11/19/09
Responsible Party: Corporate Compliance Officer	Revision #:	1

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 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 urethra. The patient is admitted to the hospital as an inpatient at 11:00 p.m. The patient is treated with I.V. fluids, IM Morphine and an antispasmodic every 4 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 symptoms. 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.