

310-S - OBSERVATION SERVICES

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03/01/12, 09/20/18, [03/12/25²](#)

I. PURPOSE³

This Policy applies to ~~AHCCCS Complete Care (ACC), ACC-RBHA⁴, ALTCS E/PD, DCS /CMDP-CHP (CMDP-CHP⁵), and DES /DDD (DDD), and RBHA~~ Contractors; Fee-For-Service (FFS) Programs ~~as delineated within this Policy~~ including: the American Indian Health Program (AIHP), [TRBHA⁶](#), Tribal ALTCS, and all FFS populations, excluding Federal Emergency Services [Program \(FESP\)](#). (For FESP, [see refer to](#) AMPM Chapter 1100). This Policy establishes 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.

Refer to AMPM [Chapter 800 Policy 820⁷](#) for Prior Authorization requirements for Fee-For-Service (FFS) providers.

II. DEFINITIONS

Refer to the [AHCCCS Contract and Policy Dictionary](#) for common terms found in this Policy.

~~For purposes of this Policy, the following terms are defined as:~~

OBSERVATION SERVICES	Include the use of a bed and periodic monitoring by hospital nursing staff and/or other staff to evaluate, stabilize, or treat medical conditions of a significant degree of instability and/or disability.
RECOVERY ROOM EXTENSIONS	An outpatient extended recovery to allow the physician to monitor the condition for an extended period of time beyond the standard recovery room.⁸

¹ [Date Policy is effective.](#)

² [Date Policy is approved.](#)

³ [Policy has been re-organized for better flow.](#)

⁴ [Revised to align with the Competitive Contract Expansion YH20-0002 to expand the provision of services for the awarded AHCCCS Complete Care \(ACC\) Contractors, changes made throughout policy.](#)

⁵ [Comprehensive Medical and Dental Program \(CMDP\) changed to Comprehensive Health Plan \(CHP\) due to Behavioral health integration. Refer to Laws 2019, 1st Regular Session, changes made throughout policy.](#)

⁶ [Added TRBHA as an applicable Fee For Services \(FFS\) program.](#)

⁷ [Relocated FFS requirement and updated reference.](#)

⁸ [Removing Definitions and providing hyperlink to the AHCCCS Contract and Policy Dictionary has been added for common terms found throughout policy.](#)

III. POLICY

Observation services may be provided on an outpatient basis if determined reasonable and necessary to decide whether the member should be admitted for inpatient care, discharged, or transferred to another facility. Observation services include the use of a bed and periodic monitoring by hospital nursing staff and/or other staff to evaluate, stabilize, or treat medical conditions of a significant degree of instability and/or disability.⁹

In order to admit a member to the hospital for observation services, or to order outpatient diagnostic tests or treatments, the observation services shall be ordered in writing by a physician, or other individual authorized by hospital staff bylaws.

It is not considered an observation service when a member with a known diagnosis enters a hospital for a scheduled procedure/treatment that is expected to keep the member in the hospital for less than 24 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.

Extended stays after outpatient surgery must be billed as Recovery Room Extensions.

A. FACTORS FOR CONSIDERATION

The following shall be taken into consideration by the physician, or authorized individual, when ordering observation services including but not limited to¹⁰:

1. The severity of the signs and symptoms of the member.
2. The degree of medical uncertainty that the member may experience an adverse occurrence.
3. The need for diagnostic tests or treatments appropriate for outpatient services (i.e., tests or treatments that do not typically require the member to remain at the hospital for 24 hours or more) to assist in assessing whether the member should be admitted.
4. The availability of diagnostic procedures at the time and location where the member presents.
5. The reasonableness, cost effectiveness, and medical necessity~~It is reasonable, cost effective, and medically necessary~~ to evaluate a medical condition or to determine the need for inpatient admission.
6. The length of stay for observation services is medically necessary for the member's condition.

⁹ Added language from contract to apply additional clarification surrounding observation services.

¹⁰ Added language to align with policy standards.

B. REQUIRED MEDICAL RECORD DOCUMENTATION

The following ~~are required to~~ information shall be documented in the member's medical record including but not limited to¹¹:

1. Orders for observation services, shall be written on the physician's order sheet, not the emergency room record, and shall specify which specifies, "observation services"." ~~Rubber stamped e~~¹² Orders for observation services that have not been authenticated by the ordering provider's written or valid electronic signature¹³ are not acceptable.
2. Follow-up orders written within the first 24 hours, and at least every 24 hours if observation services ~~is~~ are extended.
- ~~2.3.~~ Changes from "observation services to inpatient" or "inpatient to observation services". These changes shall be made per physician order.
- ~~3.4.~~ Inpatient/outpatient status change, supported by medical documentation.

C. LIMITATIONS

The following services are not covered observation services:

1. Substitution of observation services for physician ordered inpatient services.
2. Observation services that is not reasonable, cost effective, and necessary for diagnosis or treatment of member.
3. Observation services provided solely for the convenience of the member or physician.
4. Excessive time and/or amount of observation services than are medically required by the condition of the member.
5. Observation services customarily provided in a hospital-based outpatient surgery center and not supported by medical documentation of the need for observation services.¹⁴

¹¹ Added language to align with policy standards.

¹² Revised wording to reflect requirement for written or valid e-signature on orders.

¹³ Revised language to clarify.

¹⁴ Removed outdated references.