

## **310-S - OBSERVATION SERVICES**

EFFECTIVE DATES: 10/01/94, 10/01/18, 06/12/25

APPROVAL DATES: 07/22/96, 10/01/01, 10/01/06, 09/01/09, 10/01/11, 11/01/11, 01/01/12,  
03/01/12, 09/20/18, 03/12/25

### **I. PURPOSE**

This Policy applies to ACC, ACC-RBHA, ALTCS E/PD, DCS CHP (CHP), and DES DDD (DDD) Contractors; Fee-For-Service (FFS) Programs including: the American Indian Health Program (AIHP), TRBHA, Tribal ALTCS, and all FFS populations, excluding Federal Emergency Services Program (FESP). (For FESP, 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 Policy 820 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.

### **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.

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 to:

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 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.

**B. REQUIRED MEDICAL RECORD DOCUMENTATION**

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

1. Orders for observation services, shall be written on the physician's order sheet, not the emergency room record, and shall specify "observation services." Orders for observation services that have not been authenticated by the ordering provider's written or valid electronic signature are not acceptable.
2. Follow-up orders written within the first 24 hours, and at least every 24 hours if observation services are extended.
3. Changes from "observation services to inpatient" or "inpatient to observation services". These changes shall be made per physician order.
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 the 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.