

Coding Compliance Tips for Hospital Outpatient Observation Services

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The Office of the Inspector General (OIG) of the Department of Health and Human Services (HHS) continues in its efforts to promote voluntarily developed and implemented compliance programs for the healthcare industry. Fundamentally, compliance efforts must be designed to establish a culture that promotes prevention, detection, and resolution of instances of conduct that do not conform to local, state and federal regulations. Specifically, every compliance program should require the development of policies and procedures that identify areas of risk and vulnerability. In an attempt to assist AHIMA members in identifying these areas, following is a review of targeted areas of risk.

In this case, the rules relating to hospital outpatient observation services have been identified for review because of the opportunities for miscoding in this area. Review of the guidelines for observation code use and Medicare coverage allow practitioners to identify the potential areas of risk or vulnerability that could occur in the coding of outpatient observation. The following are key areas for investigation in the coding of these services:

- physician order for admission to observation status
- timing of the order for admission to observation status
- documentation of medical necessity for observation status
- documentation of physician evaluation of patient status
- length of time patient receives observation services
- morbidity of patient condition

Hospital outpatient observation services may be provided and billed by the hospital and/or the physician providing the patient service. A hospital outpatient is defined as a patient who has not been admitted as an inpatient but is registered by the hospital as an outpatient and receives services from the hospital. The hospital service, covered by Medicare Part B, may be a diagnostic or therapeutic service furnished by the hospital to outpatients.

Observation status services provided to outpatients are not necessarily controlled by the location or setting within the hospital but rather by the outpatient status and the type of patient care provided. They are generally required to meet the following criteria:

- the services are outpatient services in the hospital setting, not an inpatient admission
- the patient is being evaluated to determine if inpatient admission is necessary
- the time period generally does not exceed 24 hours, but may be extended to 48 hours if the proper procedures are followed

Most payers, including Medicare, provide coverage for observation care and reimburse the facility as well as the professional physician service. Physician services are billed to Medicare Part B on the HCFA 1500 form. CPT hospital observation services codes are used to report the encounter provided by the physician to the patient when the service or patient is

designated or admitted as observation status in a hospital outpatient location. The following CPT codes are available to report these services.

- Observation care discharge services: These include the "final examination of the patient, discussion of the hospital stay, instructions for continuing care, and preparation of discharge records."¹ There is one CPT code available for this service, 99217.
- Initial observation care: These codes are used to indicate "the initiation of observation status, supervision of the care plan for observation, and performance of periodic assessments."² CPT codes 99218, 99219, and 99220, are available to report these observation services and are selected based on the level of history, examination, and medical decision making provided. These are per diem codes and should not be used for a patient who is admitted to the hospital on the same day observation services are initiated. Nor should they be used for a patient who is admitted and discharged from observation on the same date. Furthermore, these codes should not be used to report physician post-operative recovery patient services when they are included as part of the surgical package. When observation status is a result of physician services provided in another site of service, all evaluation and management services provided in conjunction with the observation services should be considered part of the initial observation care when provided on the same day.
- Observation or inpatient care services: Three CPT codes have been assigned to report observation services provided to patients who are admitted and discharged from observation status on the same date. CPT codes 99234, 99235, and 99236 are available to report these services, and selection of the appropriate code is based on the level of evaluation and management service provided.

Hospital outpatient observation services are defined in the HCFA Hospital Program Manual as those services furnished by a hospital, on the hospital premises, which are reasonable and necessary to evaluate an outpatient's condition to determine the need for a possible inpatient admission to the hospital. Medicare coverage requires that the services be provided by the order of a physician or other individual authorized by state licensure law and hospital staff bylaws to admit patients to the hospital or to order outpatient tests. The Medicare coverage requirements also state that the purpose of observation is to determine the need for further treatment or inpatient admission. Observation services greater than 24 hours must meet additional Medicare documentation requirements.

Key components to be evaluated in the coding of observation services may be extrapolated by HCFA's clarification of non-covered services. Evaluation of the documentation relating to these components may require additional analysis and investigation by the coders reviewing these services. Services not covered by Medicare as outpatient observation services include the following:

- observation services exceeding 48 hours without a fiscal intermediary exception
- services that are not medically reasonable and necessary and are only provided for the convenience of the patient
- services covered under part A, such as an inpatient admission or as part of another part B service, such as post-operative monitoring during a standard recovery period or routine preparation for outpatient diagnostic testing
- standing orders for observation following outpatient surgery
- services ordered as inpatient services by the physician but billed as outpatient
- outpatient claims for inpatient care

Medicare will deny all of the above as not reasonable and necessary under Section 1862 of the Social Security Act.

Areas of caution for coding compliance are highlighted by the Medicare coverage issues and corresponding notes included within the CPT definitions for observation status. Policies and procedures for coding observation services should address the following caution areas:

- Physician or other licensed provider documentation should include an order for admission to observation status
- Provider documentation should clearly include the patient condition, which indicates the reason the patient is admitted to observation status. Documentation should include a medical evaluative process occurring during the observation status, which documents an assessment of the patient's condition in relation to an inpatient admission
- Orders written for admission to observation prior to the completion of a reasonable post-operative recovery period should be subject to review. Orders written prior to surgery or within the reasonable recovery period may indicate inappropriate use of the observation status
- Documentation by the physician of an evaluative process during the patient's observation status
- Documentation suggesting that the admission to observation status was for patient convenience may be found when the patient is unable to be picked up from the hospital, transfer to another facility is impeded, or the patient indicates a preference to remain overnight

Many facilities and physician practices have chosen to voluntarily review coding policies and procedures for observation services as well as internally audit the coding and billing of these services. Such practices indicate an intent to comply with the rules and regulations relating to the payment of observation services. In the process of an audit, it is important to know what the employer's compliance plan requires, in case any findings require corrective action. Some policies and procedures require immediate corrective action, so it is important to know how to respond appropriately to an adverse audit finding.

The need for audit and review as integral pieces of an effective compliance plan once again exemplify the need for health information management expertise in the compliance arena.

Notes

1. American Medical Association. *Current Procedural Terminology*. Chicago, IL: 1999.
2. Ibid.

References

HCFA Hospital Manual, Section 230.6, Outpatient Observation Services. Available at http://www.hcfa.gov/pubforms/10_hospital/ho00.htm.

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