



TO: All Hospital Providers and Managed Care Organizations  
RE: Clarification of Observation Service Guidelines

---

The purpose of this bulletin is to clarify PB 2006-72, Guidelines for Medical Documentation for Observation Services for Medicaid Fee-for-Service and HUSKY clients.

Observation is a patient status determined by medical necessity and provider order. This outpatient service should be used when a diagnosis cannot be readily ascertained during an emergency department visit and appropriate disposition is therefore unclear. Documentation in the patient's medical record must support the medical necessity of the observation service. Observation services for reasons other than medical necessity (e.g.: waiting for transportation, waiting for an available inpatient bed) are not reimbursable by the Department. Observation services must be provided in a licensed hospital space which can be located any place in the hospital. Observation for CTBHP requires prior authorization.

Observation time begins at the time appearing on the nurse's observation admission note and ends at the time of the physician's discharge order. Observation is reimbursed by the Department for up to 23 hours if deemed medically necessary. Beyond 23 hours, the hospital must do one of the following:

- (a) Request an inpatient admission if medically necessary;
- (b) Continue the observation status with no additional reimbursement from the Department;  
or
- (c) Discharge the client according to the attending physician's orders.

For observation status to become an inpatient admission, prior authorization from the appropriate entity is required. If approved, the date of admission will be the beginning of the observation as documented by the nurse. If the inpatient admission is at the same hospital as the observation service, the hospital will not be separately reimbursed for the observation, as it is included as an inpatient charge. If the observation and admitting hospitals are different, the hospital will be reimbursed for the observation. Emergency room services provided on the same day as observation or an inpatient admission at the same hospital are not covered.

