OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

AUG 11 2010

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY
ASSISTANT SECRETARY OF THE NAVY
ASSISTANT SECRETARY OF THE AIR FORCE

SUBJECT: Policy for the Reporting and Billing of Observation Care Services

Reference: TRICARE Management Activity—Unified Biostatistical Utility, "Military Health System Coding Guidance: Professional Services and Specialty Coding Guidelines, Version 3.3," June 1, 2010

This memorandum cancels the TRICARE Management Activity (TMA) policy memorandum, "Interim Policy for the Reporting and Billing of Observation Care Services," (Attachment 1), dated March 17, 1999. The guidance in this policy that directs the use of the designated Functional Cost Code B**0 to collect data related to observation care services is no longer needed. The capabilities of the current system, Armed Forces Health Longitudinal Technology Application, now enables the capture of this data without the use of B**0.

Observation care services are those services furnished by a hospital on the hospital's premises, including the use of a bed and periodic monitoring by the hospital's nursing or other staff that are reasonable and necessary to evaluate an outpatient's condition or determine the need for a possible admission to the hospital as an inpatient. Such services are covered only when provided by the order of a physician or another individual authorized to admit patients to the hospital or to order outpatient tests. Most observation care services do not exceed one day. Some patients may require a second day of services. Only in rare and exceptional cases do observation care services span more than 2 calendar days.

The new policy identifies guidance for patients admitted for observation care. Observation care services shall only be provided in two locations: the Emergency Department (ED) or in a nursing unit, since our present information system can only support observation care services for patients in the ED. For a patient receiving observation care in the ED, the provider must write an order to place the patient under "observation." This order will enable the patient to receive the necessary services required. A separate observation record must be documented in addition to the ED record that contains dated and timed provider's admitting orders, hours of observation reported as "units of service," nursing notes, and progress notes prepared by the provider.

Patients in a clinic who require observation care services must be "admitted" to the hospital and placed in a bed in a nursing unit. To close out the clinic encounter, enter disposition "admitted." For specific coding guidelines refer to the current version of cited reference, Section 3.3, "Hospital Observation Services."

TMA recognizes that this policy is not a perfect solution for coding observation; however, the number of patients who are in this status is very small, and the guidance outlined in this policy will safely accommodate observation care services and protect the health and welfare of the patient. This solution is the best for patient safety.

Your assistance is sincerely appreciated. If you have any questions or comments, the point of contact is Mr. David Fisher, who may be reached at (703) 681-4365, or via e-mail at David.Fisher@tma.osd.mil.

Charles L. Rice

Charles L. Rice, M.D.
President, Uniformed Services University of
the Health Sciences
Performing the Duties of the
Assistant Secretary of Defense
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Attachments:
As stated

cc:
Surgeon General of the Army
Surgeon General of the Navy
Surgeon General of the Air Force

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2 Apr 99

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TRICARE
MANAGEMENT
ACTIVITY

MAR 17 1999

MEMORANDUM FOR SURGEON GENERAL OF THE ARMY
SURGEON GENERAL OF THE NAVY
SURGEON GENERAL OF THE AIR FORCE

SUBJECT: Interim Policy for the Reporting and Billing of Observation Care Services

This memorandum implements an interim policy for the reporting and billing of observation care services. Attached is the Department of Defense (DoD) definition for observation care services, which is the basis for the release of this interim policy. Effective Fiscal Year 1999 (FY99), all Military Treatment Facilities (MTFs) shall establish B**0 and fourth level DGE* codes to capture workload and expenses for observation care services. The "**" coding schema, which is the same one used for Ambulatory Procedure Visits (APVs), indicates the specialty of care being provided to the observation care patient. For example, observation services performed by an Internal Medicine provider (MEPRS account BAA) would be reported as BAA0. The fourth level code of Ambulatory Nursing Services (DGE*) indicates the area(s) designated for observation care services. This methodology minimizes system changes and implementation costs and allows DoD MTFs to bill for these services beginning FY99.

Observation care services, as outlined in the attached definition, are those services furnished by a hospital on the hospital's premises, including the use of a bed and periodic monitoring by the hospital's nursing or other staff, that are reasonable and necessary to evaluate an outpatient's condition or determine the need for a possible admission to the hospital as an inpatient. Such services are covered only when provided by the order of a physician or another individual authorized to admit patients to the hospital or to order outpatient tests. Most observation care services do not exceed one day. Some patients may require a second day of services. Only in rare and exceptional cases do observation services span <u>more</u> than two calendar days.

MTFs will add the B**0 and designated fourth level DGE* observation codes to their Account Subset Definition (ASD) and create these work centers through the Composite Health Care System (CHCS) Patient Appointment and Scheduling (PAS) Module and/or Managed Care Program (MCP) modules. Scheduling for an observation patient will be performed by using B**0 as the requesting Medical Expense and Performance Reporting System (MEPRS) code in the PAS module of CHCS as a count visit. The current scheduling procedures will be used to generate an Ambulatory Data System (ADS) form for processing observation patients. Since there is no Observation status on the ADS form at this time. B**0 would appear as if it were any other clinic. Once the patient is scheduled and sent to the area designated for observation care (ward or clinic), minutes of service must be accumulated manually and reported under DGE* (site-specific fourth level codes assigned for observation). The minutes of service under DGE* may be collected by building an ad hoc report in CHCS to track each patient from the time of the appointment through discharge when completing end-of-the-day processing transactions. Minutes of service and number of patients under DGE* will be the dual performance factors reported in MEPRS. This data, as well as the costs associated with these services, will be used to further refine the observation care billing rates.

When registering an observation patient, the observation encounter will be on the Service/MTF specific Authorization and Treatment Statement. Patient registration would also include the Other Health Insurance (OHI) data on a DD2569 form – Third Party Collection Program/Insurance Information.

Evaluation and Management (E&M) codes will be used to document the length and acuity of observation care services on the ADS form. Observation E&M codes relate to the calendar day (date) the patient spends in observation status and their acuity. **Only one** E&M code per observation patient will be recorded, according to the number of days (up to three) that the patient was under observation care.

- If a patient is placed under and released from observation care on the same date of service, report the appropriate code from the series (99234–99236) for Observation Care.
- If a patient is placed under observation care on Day 1 and released on Day 2, report the appropriate code from the code series for Initial Observation Care (99218 99220) when released on Day 2.
- If a patient is placed under observation care on Day 1, stays under observation care through Day 2, and is released from observation care on Day 3, report only code (99217) for Observation Care Discharge on Day 3.
- If a patient is admitted from observation, the admission will be noted on the ADS form with the 99221-99223 E&M codes, as appropriate. The ADS form must be forwarded to the Uniform Business Office (UBO) for the admission information and minutes of service to be incorporated into the inpatient billing record. The UBO staff will manually calculate the observation costs for minutes of service and add the amount to the inpatient DRG bill when it is generated.

Any nourishment provided incidental to observation care services is provided as an oral challenge to evaluate the patient's re-establishment of normal physiological response or function as a precondition of release. The observation nourishment rate will be calculated in the same manner as that currently used for APVs.

The following table summarizes the information described above:

LENGTH OF OBSERVATION (CALENDAR DAYS OR DATES)	DAY OF SERVICE	OBSERVATION E&M CODES FOR ACUITY			OTHER E&M CODES FOR OBSERVATION STATUS
		Low	Medium	High	
Observation care services provided within one calendar day (same date)	Day 1	99234	99235	99236	
Observation care services provided over a period of two calendar days (two dates) with release on Day 2	Day 2	99218	99219	99220	
Observation care services provided over a period of three calendar days (three dates) with release on Day 3, not exceeding 48 total hours	Day 3				99217
Admitted from observation status		99221	99222	99223	

These observation E&M codes only apply to observation care services as outlined in the attached definition. These codes may not be used for post-operative recovery if the procedure is considered part of a surgical "package" such as APVs. Also observation services after an inpatient admission are not covered. Refer to the attached definition that also specifies other services not classified as observation care services.

After the patient is discharged from observation care services, a copy of the completed ADS form and minutes of service (which may be collected on an ad hoc report from CHCS or manually) will be submitted manually to the Uniform Business Office (UBO) on a daily basis for billing. Until billing for observation care services is incorporated into DoD automated information systems, MTFs will bill manually. It is important that the UBO receive copies of all forms documenting workload of observation care services for billing purposes.

For billing of observation care services, the UBO staff will report the number of hours in the units' field (Block #46 of the UB 92). Begin counting minutes of service when the patient is placed in the observation bed and round to the nearest hour. If necessary, verify the minutes of service in the nurses' notes. For example, a patient who was placed in an observation bed at 3:03 p.m. according the nurse's notes and discharged to home at 9:45 p.m. will have a "7" placed in the units field. Use the following revenue code on the UB92 billing form:

Revenue Code	Description
762	Observation care services

All documentation related to an observation stay will be filed in a separate treatment record (see the note below). The medical documentation will not be integrated into the health record (HREC), outpatient treatment record (OTR), or inpatient record, except for copies of pertinent summary information, as follows:

(1) Release note with a summary of pertinent diagnostic findings

(2) Status of patient upon release

(3) Release instructions with plans for follow-up care

NOTE: This separate treatment record will be called the Extended Ambulatory Record (EAR). The EAR will contain all APV and observation records related to the individual in one medical record jacket. A policy to establish this type of record as a formal category of records distinct from the outpatient and inpatient records is currently in development.

In cases where the patient is released from observation status to an APV, the observation medical record documentation becomes part of the Extended Ambulatory Record (EAR). In addition, a copy of pertinent summary information from the observation and APV episodes will be filed in the patient's outpatient treatment or health record, as described above, in accordance with appropriate Service regulations.

The treatment record will be filed in the inpatient record room or in a limited access area in conjunction with any inpatient records. The retirement process for inpatient records will apply to the EAR. Records will be retired to the National Personnel Records Center in accordance with applicable regulations.

Service MEPRS and UBO Program Managers should provide a copy of their implementation plans to TRICARE Management Activity, Resource Management, Financial Analysis and Integration, by April 23, 1999. For further information, the point of contact for this policy is Major Rose Layman. She may be reached at (703) 681-8910, extension 1007 or via email at Rose.Layman@tma.osd.mil.

H. James T. Sears, M.D.
Executive Director

Attachment:
As stated