



**Louisiana Department of Health  
Health Plan Advisory 18-9  
May 17, 2018**

**Common Observation Policy**

Effective July 1, 2018, all managed care organizations (MCO) shall adopt the below Common Observation Policy developed pursuant to contract section 8.4.4.

**Purpose**

This policy outlines how Healthy Louisiana MCOs will utilize a common hospital observation policy. This policy has been developed collectively by MCO personnel with approval of the Louisiana Department of Health (LDH). The common hospital observation policy shall be reviewed annually by LDH and the MCOs in its entirety. Any revisions shall be reviewed and approved by LDH at least 30 calendar days prior to implementation of any new or revised language. The purpose of the outpatient hospital services program is to provide outpatient services to eligible Medicaid members and performed on an outpatient basis in a hospital setting. Hospital providers are to ensure that the services provided to Medicaid members are medically necessary, appropriate and within the scope of current evidence-based medical practice and Medicaid guidelines.

**Definitions**

**Business Day** – traditional workdays, including Monday, Tuesday, Wednesday, Thursday and Friday. State holidays are excluded. Traditional work hours are 8 a.m. – 5 p.m., unless the context clearly indicates otherwise.

**Observation Time** – the period beginning at the time the order is written to place a member in observation status or the time a member presents to the hospital with an order for observation, and ending with discharge of the member, or an order for inpatient admission.

**Observation Care** – a well-defined set of specific, clinically appropriate services furnished while determining whether a member will require formal inpatient admission or be discharged from the hospital. Observation is for a minimum of one hour and up to 48 hours.

- The member must be in the care of a physician during the period of observation, as documented in the medical record by an observation order, discharge, and other appropriate progress notes that are timed, written and signed by the physician.

### **Observation Procedure**

Healthy Louisiana MCOs will reimburse up to 48 hours of medically necessary care for a member to be in an observational status. This time frame is for the physician to observe the member and to determine the need for further treatment, admission to an inpatient status, or for discharge. Observation and ancillary services do not require notification, precertification or authorization and will be covered up to 48 hours.

Hospitals should bill the entire outpatient encounter, including emergency department, observation and any associated services on the same claim with the appropriate revenue codes, and all covered services are to be processed and paid separately.

Any observation service over 48 hours requires MCO authorization. For observation services beyond 48 hours that are not authorized, MCOs shall only deny the non-covered hours.

If a member is anticipated to be in observation status beyond 48 hours, the hospital must notify the MCO as soon as reasonably possible for potential authorization of an extension of hours. The MCO and provider shall work together to coordinate the provision of additional medical services prior to discharge of the member as needed.

### **Observation-to-Inpatient Procedure:**

Length of stay alone should not be the determining factor in plan denial of inpatient stay/ downgrading to observation stay.

Medicaid members should not be automatically converted to inpatient status at the end of the 48 hours. Admission of a member cannot be denied solely on the basis of the length of time the member actually spends in the hospital.

All hospital facility charges on hospital day one are included in the inpatient stay and billed accordingly inclusive of emergency department/observation facility charges. (Note: Professional charges should continue to be billed separately).

All observation status conversions to an inpatient hospital admission require notification to the MCO within one business day of the order to admit a member. Acceptable notifications include

the use of MCO provider portals, admit discharge transfer notifications and other mediums through which plans accept clinical communications.

MCOs are prohibited from including any observation hours in the inpatient admission notification period.

The MCO will notify the provider rendering the service, whether a health care professional or facility or both, verbally or as expeditiously as the member's health condition requires but within no more than one business day of making the initial determination. The MCO will subsequently provide written notification (i.e., via fax) to the provider within two business days of making the decision to approve or deny an authorization request.