Medical Necessity: The Driving Force of Successful Observation Units

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The Patient Protection and Affordable Care Act and the ever increasing RAC auditors’ objective to preserve the Medicare Trust Fund are strengthening the case for a solid Medical Necessity Compliance Program and reinforcing its importance for Observation Units. In this environment of increased scrutiny, a number of opportunities exist with the potential to reduce cost, enhance patient satisfaction and improve the quality of care. Hospitals are exploring ways to address these challenges. Although hospitals have implemented the concept of observation, many have not evaluated or reviewed a Medical Necessity Compliance Program, often relying on third party vendors to make those determinations.

Visits to Emergency Departments (ED) exceed 120 million each year¹, inpatient beds are scarce and expected to become more so, Medicare payments are declining, RAC audits and denials are increasing, and payments back to CMS are on the rise. Nationally, hospitals are experiencing a double-digit increase in the percentage of patients placed in observation status. This translates to decreased inpatient admissions and decreased revenues. A successful strategy for addressing these challenges is a well-defined process that ensures medical necessity and places the patient in the appropriate level and setting of care at the front end of the process.

A Medical Necessity Compliance Program employs currently-accepted clinical risk stratification models and evidence-based medicine protocols in the evaluation and work-up of patients in the ED. This gives the ED physician and the attending physician a greater opportunity to determine risk and identify disease at the time of admission. The physician advisor and the case management / utilization management team will have specific, objective clinical data to reference and guide them in documenting medical necessity and in collaborating more closely with the medical staff and third party payers.

Patients who do not meet medical necessity criteria for inpatient care can be managed in an Observation Unit. The Centers for Medicare and Medicaid Services (CMS) defines observation care as “ongoing short term treatment, assessment, and reassessment before a decision can be made regarding whether patients will require further treatment as hospital inpatients or if they
are able to be discharged from the hospital.” Observation care is intended to be a time-limited outpatient service. According to CMS, “the decision whether to discharge a patient from the hospital or to admit the patient as an inpatient can be made in less than 48 hours, usually in less than 24 hours.”

Observation orders and physician notes must communicate clearly both the reasons hospital observation is required (the risk assessment) and the treatment plans for services that require a hospital setting. Simply restating the patients’ chief complaint (chest pain, abdominal pain, dizziness, etc.) will not be enough to establish risk. Adding a provisional diagnosis (such as an "R/O" diagnosis) and mention of a potential adverse outcome will help satisfy this requirement. The medical record should clearly describe why a given patient cannot be sent home and should have an outpatient workup.

It is our experience that patients correctly placed in observation units are more accurately diagnosed and discharged to home faster, thereby avoiding costly admission charges and ensuring that scarce inpatient bed capacity is more appropriately utilized. More frequent use of observation can reduce unnecessary admissions, increase regulatory compliance and improve fiscal performance for the hospital, while increasing patient satisfaction.

A comprehensive Medical Necessity Compliance Program that is the foundation of a successful Observation Unit will result in enhanced revenues, reduced denials, decreased observation LOS, improved clinical outcomes, regulatory compliance, and overall more efficient care. It will provide a framework and road map for the medical staff to provide them with an objective, well-defined process that will allow them to work collaboratively with the case management/utilization review team and the physician advisor. The entire clinical team will have the tools and the setting to provide high quality, cost effective care.

If you’d like additional information on this topic or to discuss your hospital’s unique observation status, please contact Cyndy Kowalski at 732-392-8307 or ckwalski@besler.com.

REFERENCES