



THE ASSISTANT SECRETARY OF DEFENSE

1200 DEFENSE PENTAGON
WASHINGTON, DC 20301-1200

HEALTH AFFAIRS

02 August 2011

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY (M&RA)
ASSISTANT SECRETARY OF THE NAVY (M&RA)
ASSISTANT SECRETARY OF THE AIR FORCE (M&RA)

SUBJECT: Policy for Billing of Observation Services in Fixed Military Treatment Facilities

Reference: TRICARE Management Activity Unified Biostatistical Utility, "Military Health System Coding Guidance: Professional Services and Specialty Coding Guidelines, Version 3.4," January 2011, Appendix H: Observation Services

This memorandum cancels the TRICARE Management Activity policy memorandum entitled, "Policy for the Reporting and Billing of Observation Services," dated August 11, 2010, and implements new policy for billing of observation services in fixed Military Treatment Facilities (MTFs). Previous guidance directing 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 staff, 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 1 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.

Observation services are only provided in two locations: the hospital's Emergency Department (ED), or in a nursing unit of the hospital. 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 placed in a nursing unit who require observation care must be "admitted" to the hospital. Military Health System Coding Guidance: Professional Services and Specialty Coding Guidelines have been updated to reflect this policy change. As a result, billing staff must monitor all inpatient claims/invoices and identify those inpatient claims/invoices generated for patients in an observation status. In addition, billing staff must manually generate appropriate

outpatient claims/invoices for those patients and cancel the associated inpatient claims/invoices. Specific guidance for identifying inpatient claims/invoices for patients in an observation status, as well as detailed guidance regarding how to bill observation services provided in an MTF, can be found in the Department of Defense Uniformed Business Office User Guide available at: http://www.tricare.mil/ocfo/mcfs/ubo/policy_guidance/userguide.cfm.

Your assistance is sincerely appreciated. If you have any questions or comments, the point of contact is Ms. DeLisa Prater, who may be reached at (703) 681-6757, or DeLisa.Prater@tma.osd.mil.

Jonathan Woodson, M.D.