

Report on Medicare Compliance Volume 29, Number 5. February 10, 2020

Observation Is Attracting Audit Attention; Hours Are a Risk, And Watch Out for the MOON

By Nina Youngstrom

At least two Medicare administrative contractors (MACs) have set their sights on observation services, and there may be more to come. WPS is auditing observation stays that are longer than 48 hours in a Targeted Probe and Educate review, but even without drawn-out stays, observation billing can go awry because it's based partly on reporting the hours correctly, which isn't always a straightforward proposition. Meanwhile, National Government Services (NGS) said late last month it will deny claims when there are errors on the Medicare Outpatient Observation Notice (MOON). That was a shocker because compliance with the MOON—which informs patients they are outpatients receiving observation services and not inpatients—is a condition of participation, not a condition of payment, experts say.

“There are patients in observation who need to be there and there are patients in observation who don't need to be there, and we want to separate the necessary hours from the unnecessary hours,” said Ronald Hirsch, M.D., vice president of R1 RCM, at a Feb. 6 webinar sponsored by RACmonitor.com. The National Correct Coding Initiative has an edit that kicks in at 72 hours, although Medicare limits coverage of observation services to 48 hours by way of the two-midnight rule, he noted.

Observation hours are billed to Medicare with G0378. When patients receive observation for eight or more hours and have had an associated visit in the emergency room or hospital-owned clinic, or a critical care or community care physician visit, hospitals are paid a comprehensive APC (C-APC 8011). It bundles all the services provided during observation, including room and board, nursing services, labs and imaging. However, when patients are directly transferred to hospitals for observation from another hospital, urgent care center or other site, hospitals can't bill Medicare for C-APC 8011 because they didn't provide the associated visit, Hirsch said. With direct observation referrals, hospitals report the hours with G0379, and they're paid a la carte for the services.

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