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Observation Audits May Be Coming as Payers Update Notices; Margins Are Already 'Thin'

By Nina Youngstrom

A patient with intractable nausea and vomiting comes to the emergency room, where he's put on IV fluids and eventually moved to observation for monitoring. He stays for 18 hours, but because his labs are within normal limits and there isn't a diagnosis aside from gastroenteritis, the observation stay probably will be denied by private payers, who use InterQual and MCG screening tools, although it may fly with Medicare.

"This is one I would look at as a gray zone, but 18 hours is a long time in the observation world," said consultant John Hall, a physician and attorney. "And nausea and vomiting are always listed as intractable."

Cases like this need a closer look, because there may be a wave of observation audits coming to hospitals, Hall said at a webinar sponsored by RACmonitor.com on Sept. 26. The profit margins for observation services are already "thin," and if they start eroding, "it will be financial Armageddon."

The writing is on the wall for observation audits because payers, including Aetna, Blue Cross and Blue Shield of Texas and UnitedHealthcare, have been sending notices reminding providers of the observation criteria, Hall said. "They reissued all these notices relatively recently. I see it as foreboding. They are getting ready to start the denials, and they are reminding me they are allowed to," Hall explained. The Medicare Advantage (MA) and commercial payers cite back to the Medicare Benefit Policy Manual[1] and MA plan manuals in most cases.

Physician payments for observation also are on the approved list of issues for recovery audit contractors nationally.